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World Markets 1998
The winners and losers
Page 28

Maths and medicine
The formula for healing wounds
Page 16

Cost of flying
Air fares become more transparent
Business Travel, Page 14

Mr Danone, Junior
Riboud emerges from father's shadow
Profile, Page 12

Euro starts with cautious trading as Asia opens

By George Graham in London and Gwen Robinson in Sydney

Europe launched its challenge to the US dollar's dominance of the world's currency markets early today, with the official start of Asian trading in the euro.

The foreign exchange dealing rooms of Australia's largest banks began their first official trades in Europe's new currency at 5am, Sydney time.

After official celebrations of the euro's birth in the early hours of Friday morning, yesterday's trading marked its coming to life as the new currency for 11 countries with a combined population of 290m and economic output approaching that of the US.

Economists expect the euro to gain strength against the dollar and the pound over the coming months, but the first days of trading are thought likely to be uneventful, as dealers make sure other banks' trading and settlement systems are working.

The first hour of official euro trading in Australia was almost all inter-bank trading in US dollars/euros, rather than Australian dollars. Trading patterns displayed what traders described as a "largely ceremonial" component and the US dollar did not move substantially from its opening price of $1.1747.

The euro was valued at $1.16675 when the European Commission fixed conversion rates at midday on December 31 for the 11 currencies that joined the euro. Some analysts expect it to move above $1.20 in the next month or two.

Although the euro is expected eventually to become an international reserve almost as important as the dollar, central bank managers have shown no signs of hurrying to move their foreign exchange reserves into the European currency.

Worldwide, banks have been sweating all weekend to convert bank balances and securities denominated in the currencies of the 11 countries that have adopted the euro, and to make sure their systems are ready for the start of trading in Europe today. After months of preparation and rehearsals, the process appeared yesterday to have gone faster and more smoothly than even the most optimistic forecasts.

The European Central Bank said: "In the monitoring of conversion activities conducted by the European System of Central Banks during the changeover weekend, no incidents have been reported that may impair the smooth start of the system."

Banks, stock exchanges and securities clearing houses were also pleased with the conversion process.

But Jean-Claude Trichet, governor of the Bank of France, warned: "The Bank of France calls on all participants in the Paris market to remain mobilised and vigilant to ensure that markets and systems start trading in euros in the best possible conditions on the morning of January 4."

Flying start, Page 2; The euro arrives, Page 9; Philip Stephens, Page 18; Welcome to the euro-zone and Editorial Comment, Page 19; Lex, Page 20

Jean-Claude Trichet, governor of the Bank of France, warned yesterday that much remained to be done to ensure a smooth birth for the new currency

FT expands statistics to cover new single currency

By Martin Dickson, Financial Editor

The birth of the euro means substantial change to the statistics published by the Financial Times and today's paper introduces the first of these new features.

The main changes are:

- Currencies. We will be publishing a table daily showing the spot and forward rates of the euro against more than 30 of the world's most heavily traded currencies. This will appear for the first time tomorrow, following today's first day of official trading in the euro. It will appear on the Euro Prices page, in place of the FT Synthetic Euro rates table, which we have published since last May as a broad proxy for the euro. On this page today we publish a table of spot rates for the euro against many currencies, based on market quotes immediately before the new year holiday and euro conversion weekend. Euro Prices, Page 31
- Money. Today we begin showing the two interest rates battling to establish themselves as the euro-zone benchmark: BBA Euro Libor and Euribor. We will also be publishing rates for Eonia, which covers overnight unsecured lending in the euro-zone inter-bank market. Currencies and Money, Page 30
- Bonds. Today we begin publication of a new table designed to track the expected development of a large, liquid euro-zone bond market. The Euro-Zone Bonds table shows the price and yield of broadly representative bonds in seven categories, including high yield issues and German pfandbriefe, and for a variety of credit ratings. Euro Prices, Page 31
- Equities. From today, trading in the shares of companies in monetary union countries will be quoted in euros. Today's FT gives a foretaste of this: we have restated the closing prices of these shares, immediately before the Emu conversion weekend, in euros at their official national conversion rates. We have also reorganised our share information service to create a separate Emu countries section. World Stock Markets, page 37. Across the paper, the ecu – which converted into the euro on a one-to-one basis on January 1 – is being replaced by the euro.

Not just a notion of shopkeepers

By Emma Tucker in Brussels

At 5.55pm on the first shopping day of 1999, I made retail history. After a long quest across European frontiers, I finally did what no one had done before.

One packet of tea bags, one pair of wool-mix socks and a thermal vest – 21 euros. Three shop assistants watched in awed silence as I filled out my cheque. These were the first euros to cross the counter of Marks and Spencer in Brussels' Rue Neuve.

"Non, non," interrupted the supervisor. A hitch. I had put the wrong symbol in the currency box. One ripped-up cheque later, the transaction was completed and I left the store triumphant.

Had it not been for this success, I might have started to believe that the birth of Europe's single currency – at midnight on December 31 – was just a fuzzy New Year dream.

My hunt for the euro, not yet circulating as note or coin but up and running for non-cash transactions, had begun appallingly. At the Extra Super Stark hypermarket in Eschweiler, Germany, there was not a euro in sight. The line of people at the checkout was getting twitchy. Who was this mad woman trying to pay for her bratwurst, sauerkraut and Riesling in euros?

"Noch nicht," insisted the long-suffering lady holding my cheque. "You have to fill it out in D-Marks. We haven't even changed our tills yet."

I retreated to McDonald's. "Euros?" said Herr Gafoor, who took my order. "No, but I will take Belgian francs."

Next stop, Maastricht in the Netherlands. I headed for the Puck Satijn cheese and wine shop, whose counters were piled high with round, golden goudas and edams. Surely in the town that gave its name to the treaty propelling Europe towards a single currency, I would make a sighting.

"Oh no," laughed the young girl behind the counter. The story was the same at the Hema superstore. All prices marked in guilders and Belgian francs, but nowhere the slightest hint that two days earlier the Netherlands had locked its currency with 10 other EU countries.

Feeling desperate, I sniffed a "coffee shop" – an establishment where marijuana is freely available. Success at last?

"One gramme of Moroccan – four and a half euros," said the suave dope dealer. "I haven't changed the prices on the menu, but I'll take euros from today."

Buoyed by the coffee shop's confirmation that the euro really did exist, I headed back to Brussels, capital of the European Union. As I headed towards the city's landmark Grande Place I spied a giant tinsel euro symbol.

Marks and Spencer – flagship retailer for a nation which is not even part of the new single currency – seemed an unlikely trailblazer for the euro. I congratulated the supervisor. "What's ironic," he replied (in French), "is that it's happening in an English store."

Soros wants IMF to be world central bank

By Peter Marsh in London

The International Monetary Fund should be converted into a global central bank to reduce the risks of new world economic crises, George Soros, the billionaire financier and philanthropist, says today in the Financial Times.

The newly constituted IMF would act as a lender of last resort to member countries believed to have sound banking systems and economic policies.

It would also regulate the international flow of credit to reduce the chances of outbreaks of economic turmoil such as those triggered in the past 18 months by events in Asia and Russia.

Mr Soros says his proposal is needed to tackle what he perceives as the "inherently unstable" nature of global financial markets.

But he concedes that reaching the international consensus to establish such a powerful institution would not be easy.

In the article, Mr Soros implies a two-tier membership system for the reformed IMF. The top tier – a "select group" of the 182 existing members – would accept "protection" from the world economic system by agreeing that the IMF take over as lender of last resort, even if financial markets were unwilling to do so.

Although most large, developed countries would qualify for the top tier of membership, an important group of developing nations could join in, if they "choose to accept the discipline" of having the IMF operate in this way.

In a controversial part of his proposal, Mr Soros holds out the prospect of the newly empowered IMF punishing institutions that lent to countries that later got into financial difficulties. Punishments could include compulsory conversion of debt into equity or enforced repayment delays.

"By putting would-be creditors on notice [of potential sanctions] the IMF would prevent excessive capital inflows from developing," according to Mr Soros, who in the past year has lost hundreds of millions of dollars through positions taken in Russia and Malaysia, and who has been a severe critic of IMF policies.

As well as requiring agreement by central banks such as the new European Central Bank and the US's Federal Reserve – which might prove reluctant to share some of their powers – Mr Soros's new scheme would require a large increase in the "quotas" or membership fees paid by the IMF's member countries. This would almost certainly run into political difficulties.

Officials from the Group of Seven leading industrialised countries are discussing a relatively small step toward reforming the architecture of the global financial system: a merger of the ministerial committees that oversee the IMF and World Bank.

Personal View, Page 18
Enhanced role, Page 4

WORLD NEWS

Saddam vows to resist 'illegal' no-fly zones in Iraq

President Saddam Hussein attacked the no-fly zones over Iraq as "illegal" and said his people would resist them. Iraq also confirmed that it wanted the United Nations humanitarian mission in the country to stop employing US and British citizens. **Page 4**

Bonn split over nuclear tax plan
Gerhard Schröder, the German chancellor, faces difficulties within his coalition government after the Green party-controlled environment ministry backed plans to tax nuclear fuel rods. **Page 2**

Bin Laden speaks on bombings
Osama Bin Laden, the exiled Saudi billionaire, appears to admit in an interview with Time magazine that he instigated the terrorist bombing of two US embassies in Africa. **Page 4**

Yemen failed to warn of threat
A government official has conceded that Yemen failed to warn foreign embassies that terrorist activity was increasing in the south of the country. **Page 4**

Bomb targets Pakistan PM
A bomb outside Lahore killed four people and triggered concerns over the security of Nawaz Sharif, the Pakistani prime minister. The blast blew up a bridge shortly before Mr Sharif was due to drive over it. **Page 8**

Senate backs Clinton trial plan
The prospect of a quick trial for President Bill Clinton in the US Senate grew as senators backed a proposal to speed up proceedings. **Page 20; Rise in defence budget proposed, Page 3**

UN urged to stay in Angola
The United Nations must not pull out of Angola despite the recent increase in hostilities and the shooting down of two UN-chartered aircraft, the UN's special representative to the country said. **Page 7**

Microsoft trial to resume
The Microsoft antitrust trial is set to resume today with a battle over testimony from the US government's latest witness – a software industry executive who plans to call for court regulation of Microsoft's Windows operating system business. **Page 3**

Minimal growth seen for Britain
Britain will see minimal economic growth over the next two years, but is likely to avoid recession this year, according to forecasts by a consultancy. **Page 10**

US struck by severe winter storm
A severe winter storm paralysed much of the US over the weekend. Chicago's O'Hare International airport was closed by the worst blizzard seen in the city since 1978. **Page 3**

Mexico scraps tortilla subsidy
Under severe budgetary pressure, the Mexican government has scrapped its last remaining control on food prices – a subsidy on tortillas estimated to cost $1bn a year. **Page 3**

Insider trading hearings under way
Court hearings began yesterday in Dhaka, the Bangladesh capital, in a trial of 34 financiers and businessmen charged with insider trading and manipulating the stock market. **Page 8**

Call for biennial World Cup
Sepp Blatter, president of the International Association Football Federation, has called for the World Cup finals to be played every two years. **Page 7**

Probe into mass grave in Kosovo
International monitors in Kosovo said they were investigating allegations that a mass grave had been discovered in the troubled Serbian province.

Israel arrests cult members
Israeli police said they had arrested eight members of a US Christian cult who had planned to carry out violence ahead of the millennium to hasten the second coming of Jesus.

BUSINESS NEWS

Frankfurt set to gain from pan-European stockmarket link-up

The pan-European equity market alliance between the Frankfurt and London stock exchanges opens today, with the German partner set to be the clear early beneficiary. The accord is expected to widen later in the year to include up to six more European exchanges. **Page 21; Markets in 1998, Pages 28 and 29**

General Motors, the world's biggest vehicle maker, launched its boldest drive to revive Cadillac as a global luxury brand by unveiling a radical concept car for the Detroit motor show. **Page 20; General Motors special report, Page 22**

France is to modernise its bond markets this year following the launch of the euro. Individual investors from euro-zone countries will be able to buy inflation-linked government bonds as part of the reforms. **Page 26**

Smaller clearing firms on London's derivatives exchange are expected to face a huge outflow of capital today as independent traders withdraw funds in the wake of the biggest trading scandal since the Barings collapse in 1995. **Page 21**

Artémis, the holding company of the Printemps retailing group based in France, is in talks to acquire Japan's Aoba Life Insurance, Japanese press reports said. Artémis is understood to have offered to pay Y40bn to Y50bn ($355m-$443m). **Page 26**

Pacific Internet, the online service provider owned by the Singapore government, is planning to cash in on the US internet share price boom with an IPO within a fortnight. It will be the first Internet offering in the US by an east Asian company. **Page 21**

Allied Domecq, the UK spirits and pubs group, is poised to sell Cantrell & Cochrane, its Irish drinks distributor, for more than £500m ($800m) to BC Partners, the venture capital company. **Page 24**

The volume of new issuance of American Depositary Receipts – secondary share offerings by foreign companies – tumbled in 1998, hitting its lowest level in nearly a decade. **Page 21**

Donaldson, Lufkin & Jenrette, the US investment bank indirectly controlled by Axa, the French insurer, is today expected to launch its euro-zone equities business, coinciding with the first trading day of the single currency. **Page 26**

Kirch, the privately held German broadcasting group, is expected today to unveil details of a wide-ranging reorganisation that could pave the way for outside investors to join as partners in its media activities. **Page 24**

Strutt & Parker, the UK chartered surveyor, has acquired William Hillary Leisure and Hotels, a smaller rival specialising in hotel and leisure property. **Page 24**

State-owned commercial banks in China may create special institutions to take on loans that have gone bad. China Construction Bank, one of four government-backed commercial banks, is establishing a separate arm to assume non-performing assets. **Page 26**

Cellcom, the Israeli cellular phone operator, plans to issue shares on Wall Street in the first quarter of 1999 in an initial public offering that would value the company at $3.5bn. **Page 26**

Bayerische Landesbank Girozentrale bought a 7.98 per cent stake in the Hungarian Foreign Trade Bank (MKB). **Page 24**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 39

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Eurozone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Italy	L3400(€2.01)	Poland	Zl 10.00
Belgium	BFr80(€2.23)	Jordan	JD1.75	Portugal	Esc 280(€1.80)
Denmark	DKr21.00	Kuwait	KWD0.750	Qatar	QR13.00
Estonia	EKr34.00	Latvia	Ls1.65	South Africa	R16
Finland	Fmk19.00(€2.19)	Lithuania	Lit21.00	Spain	Pta275(€1.95)
France	FFr12.50(€2.13)	Luxembourg	LFr80 (€2.23)	Sweden	SKr22.00
Gibraltar	£0.75			Switzerland	SFr3.80
Greece	Dr450	Morocco	Dh18.00	Syria	S£80.00
Hungary	Ft380	Netherlands	Fl 5.00(€2.18)	Tunisia	Din2.000
Iceland	IKr265	Norway	NKr23.00	UAE	Dh13.00
		Oman	OR1.75		

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CONTENTS

WORLD NEWS
EUROPE

SINGLE CURRENCY BANKS AND MARKET INSTITUTIONS REPORT SMOOTH CHANGE-OVER

Euro conversion is off to a flying start

By George Graham and Wolfgang Münchau in Frankfurt

The daunting task of converting bank balances and securities portfolios to the euro passed off smoothly over the weekend, with several banks and market institutions finishing their conversion processes ahead of schedule.

"We have been drinking champagne since Saturday afternoon," said Bill Grant, Emu project director at Citibank, the banking arm of the US's Citigroup financial services conglomerate.

David Clementi, deputy governor of the Bank of England, which has been coordinating preparations for the conversion weekend in the City of London, said the Bank had sent most of its own conversion staff home and most private sector banks had done likewise. No one had called on the Bank over the weekend to arbitrate or resolve any issues. "Today has been a huge milestone. There are further milestones to come, but we judge that it will go smoothly," he said yesterday. Mr Clementi added that be expected traders to be cautious at the start of trading in the new currency today.

Many banks found their conversion processes ran more quickly and more smoothly than in dress rehearsals.

"For the most part we were done quite early on Saturday night. I brought the 2 o'clock meeting on Sunday forward to 12 o'clock, and that was our sign-off," said Joanna Meager, Emu chief at Salomon Smith Barney, the investment banking arm of Citigroup.

Across Europe, central banks, stock exchanges and financial institutions reported similar success with their euro preparations.

"No incidents have been reported that may impair the smooth start of the system," said the European Central Bank.

One of the keys to the weekend's success was the work of central market institutions such as Cedel and Euroclear, the two securities depositories which handle the clearing of most international bonds and many other securities. André Lussi, president of Cedel Group, which spent $25m preparing for the conversion, said all deadlines had been met ahead of schedule.

Euroclear said 600 people working in shifts had redenominated more than 3,500 debt securities and converted around 13,500 equity quotations. Redenomination of securities balances and conversion of trades entered in national currencies at the end of last year were completed by 9pm on Friday, well ahead of the target of 8am on Saturday.

At Reuters, the market information services company, Geoff Sanderson, euro programme director, said more than 1bn items of historical data had been converted seven hours ahead of schedule.

Other pieces of the market infrastructure, such as the Swift bank messaging system and the Target payments network run by the ECB, also appeared to be ready for operations today.

But most banks are not letting their Emu teams stand down yet.

Banks are watching not only to see whether their trading partners have problems but to make sure their cash is flowing smoothly to the right places. Until now, any D-Mark payments would automatically flow to Frankfurt, while French francs would move to Paris. But euros could end up in one of 18 different payment systems, so banks must ensure they have enough liquidity in the right places.

Euro launch, Page 9
Conspicuous absence, Page 18
Editorial Comment, Page 19
Welcome to the euro-zone, Page 19

Just routine, says Chase Manhattan

By George Graham, Banking Editor

In a basement conference room on the edge of the English coastal town of Bournemouth, an Excel spreadsheet scrolled steadily on a large screen, marking off the 2,500 milestones in the Chase Manhattan bank's preparations for the start of trading this morning in the euro.

Around the table, some of the 1,800 staff working on the euro conversion at the 38 acre site housing Chase's main European processing operations checked off progress in their divisions. Many wore the blue and white Emu polo shirts the bank had printed for the occasion.

Through a hail of three-letter acronyms, the overall message came through: the task of converting bank accounts and balances to the euro, adjusting trading and risk management systems and redenominating thousands of European government bonds held on behalf of asset managers and pension funds by Chase's $4,000bn custody business was on track.

"This is the same procedure we used for the mergers [between Chemical Bank and Manufacturers Hanover and then between Chase and Chemical in 1996] and it's the same procedure we use for contingencies of other kinds," said John Irvine, head of international operations and technology at the Bournemouth site, Chase's largest operation outside the US.

Every two hours from Thursday night until Sunday, team leaders gathered in the conference room and by video link from Asia, London and the US for a regular update on progress. Problems, coded red, amber or green, in descending order of seriousness, were raised, to alert other departments to any knock-on effects.

"We don't want one thing happening in derivatives in New York that someone in Hong Kong is not aware of," Mr Irvine said.

A Hitachi Skyline computer capable of processing 960m instructions per second whirred away, its actions mirrored by a back-up system housed on the other side of Bournemouth.

The "operations bridge", where staff handle cries for technological help, was quiet. In fact, the loudest noise to be heard came from the football stadium beyond the treetops, where a goal from local hero Eddie Howe put Bournemouth FC through to the fourth round of the FA Cup.

Back in the Chase conference room, Anthony Davies, Emu project manager, queried a difficulty over interim interest payments. "So that has gone from red to clear in half an hour?" he asked. "Well actually it was more like half a minute," came the response over a video link.

Some issues took a little longer to resolve. More than $1bn went briefly astray when the mark-to-market process, in which trading portfolios are revalued, skipped one trading book and mistakenly valued it at zero. Three of Chase's own bank accounts were not converted from ecus to euros on the first run through.

But Chase executives said this volume of problems could be dealt with by hand. "On an average working day we have 56 things going wrong around the world," said Richard Mangogna, chief information officer for the Chase group. "This is far less than we have to handle routinely."

UK urged to hold early referendum

By George Parker and Jim Kelly

The Liberal Democrats, Britain's centre party, yesterday urged Tony Blair, prime minister, to show leadership and prepare the UK for an early referendum on participation in the european single currency.

Menzies Campbell, the party's foreign affairs spokesman, said Mr Blair's 179-seat majority in the House of Commons, the powerful lower chamber of parliament, gave him the chance to lead the debate on the euro.

Mr Campbell said the government's plan to hold a referendum after the next general election, due in 2001 or 2002, was unsustainable.

"The influence of the single currency on the UK and the way we conduct our business will be increasingly felt," he said.

"The government could well find itself swept along by events."

The Liberal Democrats, who have 46 MPs, are the most pro-European party in the UK and are developing increasingly close links with the government.

The party hopes to persuade Mr Blair he could win an early referendum on UK membership of the euro, with cross-party support.

A "Yes" campaign in a referendum would also be supported by a number of senior Conservatives, including Kenneth Clarke, the former chief finance minister, and Michael Heseltine, the former deputy prime minister.

Meanwhile, former Labour foreign secretary David Owen announced formally he would join campaigners trying to stop UK participation in a single European currency.

Lord Owen warned that the countries signing up to a single currency would effectively become a single state. He said there were also strong economic reasons why Britain should stay outside the euro-zone.

"People aren't stupid, they know when they are being sold a pig in a poke and I think one of the reasons they are still very strongly against the euro is that they know there is more on offer. Effectively this is a big step towards greater integration."

Senior opposition Conservative politicians said the government was trying to prejudice any referendum on entering the single currency, noting that the Bank of England was already printing euro bank notes.

They said the bank's printing presses had produced euro notes in three denominations worth more than a total of £100m ($168m). "Why are these notes being printed if we are not in the euro?" said party constitutional spokesman Nigel Evans.

"It looks like the government's trying to prejudge the referendum."

A spokesman for the Treasury said: "This has no bearing on whether or not we join. All central banks in Europe are printing the notes as a test as part of the general preparations. The cost of the operation – said to be £300,000 – would be recouped by sales to participating members.

Fund managers may face further test

By Jane Martinson, Investment Correspondent

Fund managers went to work yesterday to check the euro conversion process had not changed their portfolios beyond recognition.

After an army of systems specialists and project managers had worked solidly since New Year's Eve, fund managers checked the switch to the euro had not left them inadvertently holding more Portuguese shares than they wanted or fewer bonds, for example.

Several fund managers had finished this checking process by lunchtime yesterday. About 200 people were working at JP Morgan Investment Management, about a third of the total London-based workforce.

Pierre-Antoine Boulat, responsible for the conversion of the asset management division, was looking relaxed by early afternoon.

"There have been so many checks done already that this really is just the final one," he said.

Brian Morris, senior fixed income fund manager, had arrived early yesterday to check his team's portfolios. Three minor errors had been found in the conversion of the company's bond holdings. One, a mis-typed code, could have happened on any day. "Frankly, it's been very unexciting," said Mr Morris. "Which is exactly how we wanted it!"

The most obvious change for many in looking at thousands of positions in shares and bonds across Europe was the proliferation of odd numbers.

The real test for fund managers may still come, however.

Although almost all of them had double checked their positions with custodians by yesterday, there is still scope for failure over the settlement of trades.

Andrew Skirton, chief investment officer of Barclays Global Investors, Europe's largest index-tracking fund manager, said: "We are confident but we don't know for sure. It's really the connections that are the issue and until they are put to the test we can't be sure. If there are any horror stories we won't hear about them for a few days."

Japanese PM in call to boost profile of yen

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, the Japanese prime minister, will seek the co-operation of European leaders in positioning the yen as one of three key global currencies along with the dollar and the euro.

In his New Year address, Mr Obuchi made clear he would ask the leaders of France, Germany and Italy to support the use of the yen as an international currency when he meets them during a European tour beginning on Wednesday.

"We must extend Japan's strength through its currency as well and ensure that the yen is accepted throughout the world like the dollar and the euro," he said.

Mr Obuchi's call to promote the yen highlights growing concern within the Japanese government over the impact the euro's launch could have on the yen and on Japan's role in the international community.

On the one hand, leading members of the ruling Liberal Democratic party (LDP) hope the euro can help mitigate the adverse effects of the dominance of the US dollar.

Many LDP politicians believe over-reliance on the US dollar was partly responsible for the Asian currency turmoil last year and would like to see the dollar's influence reduced by greater use of the euro and the yen.

"We have great expectations for the euro," and its ability to reduce the dollar's dominance, according to Ichizo Ohara, a member of an LDP committee to promote the yen and a leading adviser to Mr Obuchi.

The launch of the euro has, however, also triggered concerns that the yen's status could be further undermined with the rise of a strong European currency. "We must make efforts so that Japan is not left behind," Mr Obuchi said, referring to the launch of the euro.

To that end, Mr Ohara is calling for greater use of the yen in international transactions. For example, he has proposed paying for oil in yen rather than dollars, as is common practice, and has suggested that Japanese Overseas Development Agency loans be repaid in yen rather than dollars.

Got it licked: France has printed its first stamps denominated in euros and francs – they go on sale today Reuters

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NUCLEAR DISPUTE ENVIRONMENT AND ECONOMICS MINISTRIES AT LOGGERHEADS

Bonn split over fuel rod tax plan

By Ralph Atkins in Bonn

Gerhard Schröder, German chancellor, faces escalating difficulties within his coalition government after the environment ministry controlled by the Green party yesterday backed controversial plans to tax nuclear fuel rods.

The proposals from Jürgen Trittin, environment minister, were rejected by the economics ministry, headed by Werner Müller, who advised Mr Schröder on energy policy prior to the September election. The ideas were "unhelpful" and "not up for discussion", the ministry said. The latest row followed angry exchanges shortly before Christmas between Mr Schröder and Mr Trittin after the environment minister sacked the country's atomic power safety commissioners without consultation. The Social Democrat chancellor accused Mr Trittin of "self-important posturing" and of calling into question a coalition agreement on the eventual shutdown of Germany's 19 nuclear power stations.

Disputes over nuclear power have exacerbated the domestic difficulties faced by Mr Schröder since his election which have also included protests from industry over the government's tax plans.

The chancellor, who favours a drawn-out atomic shutdown to minimise compensation costs and job losses, now appears on course for potentially damaging confrontation with his Green party allies. Later this month, Mr Schröder is expected to take a lead role on talks between government and industry on atomic decommissioning.

However, the environment ministry last night argued that its proposals for taxing atomic fuel rods should not be seen as part of the dispute over exiting from nuclear power. Instead, they should form part of separate government plans for higher "ecological taxes" to fund cuts in state social security contributions paid by employers and employees.

The economics ministry said the proposals violated the principles of a coalition deal on ecological taxes struck last September.

● In an interview with Der Spiegel magazine, Mr Schröder warned his European Union partners that failure to reform EU finances during Bonn's six-month presidency of the bloc would force a delay in its enlargement, Reuters reports in Bonn.

"If we fail to re-order financial relations during the German presidency...then enlargement will be delayed," he said in an interview to be published on Monday. Mr Schröder has adopted a hard line on cutting Germany's DM22bn (€11.3bn, $13bn) EU budget contribution, a legacy of what he has called his predecessor Helmut Kohl's "chequebook diplomacy".

US MILITARY SPENDING

Clinton plan for defence budget rise

By Stephen Fidler in Washington

President Bill Clinton has proposed to reverse almost a decade of falling US spending on defence, pushing for a $12bn increase in the military budget next year.

US military spending has been in continuous decline after adjustments for inflation since the mid-1980s, with the exception of the Gulf war year of 1991.

The increase is part of an administration proposal to boost expenditure on the armed forces by about $100bn over the next six years. It comes in response to growing concern in the military and among some Republican legislators that US military capabilities have been threatened by past cuts.

There have also been complaints that the armed forces have been stretched by new longstanding commitments abroad, including in Iraq and in the Balkans.

Mr Clinton announced his intentions in his weekly radio address on Saturday. "We want our forces to remain the best equipped in the world into the next century and that is what this effort will ensure," he said.

The increases would provide for upgrading military equipment, more spare parts and better military pay and housing.

The $12bn increase – equal to about 4.2 per cent in the 2000 fiscal year – would allow increases in military pay, and go some way towards addressing Pentagon concerns that the military is losing personnel to the private sector. "It will help us to do right by our troops by upgrading and replacing ageing equipment, barracks and family housing," Mr Clinton said. The money would come through a combination of new spending and budgetary savings.

The $12bn proposal is only the first step in the lengthy budget process between the administration and Congress. The Pentagon has also requested a higher increase of close to $150bn over the next six years. However, the sum being proposed by the administration would be sufficient to provide much of the equipment that defence chiefs have argued are priorities, including new F-22 fighters, attack helicopters, ships and new defence systems.

Administration officials have said the US must also be ready to defend against new threats such as terrorism and weapons of mass destruction.

"We must undertake this effort today so that our nation will remain strong and secure tomorrow," Mr Clinton said. "We must do it as well because we have the most sacred obligation to those who accept dangers and hardships on our behalf."

Storm wreaks havoc in US

By Victoria Griffith in Boston

A ferocious winter storm paralysed much of the US this weekend. A foot-and-a-half of snow blanketed the city of Chicago in the worst blizzard it has seen since 1978 and winds gusting up to 55 miles per hour created 8ft snow drifts.

The weather wreaked havoc with US air flights on one of the busiest travel days of the year. Chicago's O'Hare International – one of the largest air hubs in the country – shut down on Saturday, as did airports in Indianapolis, Milwaukee and South Bend.

In a domino effect, cancellations and flight delays spread across the country. TWA cancelled nearly 400 flights out of its St Louis headquarters. Northwest Airlines dropped 150 flights nationwide.

The Greyhound bus company cancelled all travel in Indiana. Fifty cities in Indiana declared snow emergencies, banning all unnecessary travel. Airlines said they might not get their flights completely back on schedule until today or even tomorrow.

The storm spread to the east coast on Saturday night. Ice forced Newark International Airport to close for a short time. Freezing rain caused power outages across the south. Slicks on roads triggered an accident involving 50 cars in New Jersey, and drove a bus headed for an Atlantic City casino off the road. Flooding caused a number of communities in Florida to abandon their homes. At least a dozen deaths nationwide were blamed on the weather.

Chicago has not seen such bad weather since the blizzard of 1978, when 2ft of snow covered the city and left it paralysed for days. "Communication was better this time, though," said Gilbert Washington, a South Bend hospital chaplain. "We knew about it well ahead of time, so we could stock up." So many people got the message, in fact, that Midwest shoppers spent Friday fighting over food at local supermarkets. Mr Washington said his wife managed to grab the last loaf of bread from the shelf at their local store.

Efforts to clear the roads in the Midwest were hampered by gusting winds. While most highways were open yesterday in Indiana, nearly all sideroads remained impassable. The US Postal Service cancelled mail delivery on Saturday throughout much of the state. Even the Swiss Valley ski resort in Michigan shut its doors as staff became stranded and lifts become inoperable.

Not everyone was upset by the weather. Children in many Midwest communities were looking forward to an extra holiday, as many schools cancelled classes today. "We're planning to take the kids sledding," said Natasha Jones, an Indianapolis resident.

Chicago city staff work feverishly yesterday to clear the weekend snow Reuters

Mexico faces price rise as subsidy goes

By Henry Tricks in Mexico City

Under severe budgetary pressure, the Mexican government has scrapped its last remaining control on food prices – a nationwide subsidy on tortillas, the country's corn staple, which was estimated to cost $1bn a year.

The decision to end the subsidy effectively pushed up tortilla prices from 3 pesos to 4 pesos (40 cents) per kilogramme, fanning inflationary pressures in Mexico already kindled by higher petrol and diesel prices.

But the trade ministry, which abolished the price support on January 1, said it would redirect the subsidy to increase the amount of free tortillas distributed to the very poor.

Some 3.5m Mexican families whose collective income is no more than 68 pesos ($6.90) a day receive tortilla handouts. Many more poor Mexicans who earn only slightly more will be hit by the latest price increase. But it will enable the government to stop providing subsidies to the rich.

The trade ministry said the elimination of the subsidy would help preserve 40,000 tortilla-producing establishments, which have protested they were on the brink of bankruptcy because of price controls.

But it will also stoke inflation. According to a recent central bank survey of 36 private sector economists, the consumer price index this year is expected to rise 15.22 per cent, well above the government's 13 per cent target, although below last year's expected increase of 18.8 per cent.

The upward trend has increased pressure on Guillermo Ortiz, the central bank chief, to prove his inflation-fighting mettle after a chequered first year in office.

"The important thing is to regain your credibility and to do that you need to get closer to your targets," one central bank official acknowledged recently. Mr Ortiz "knows the central bank needs to deliver in 1999".

Microsoft faces challenge over Windows access

US antitrust trial to resume with call from software industry executive for court regulation of dominant operating system

By Louise Kehoe in San Francisco

The Microsoft antitrust trial is set to resume today with a battle over testimony from the US government's latest witness – a software industry executive who plans to call for court regulation of Microsoft's Windows operating system business.

Although the Washington-based court recessed just before Christmas, legal manoeuvres continued over the holiday season.

In written testimony submitted to the court last week, William Harris, president and chief executive of Intuit, a California software company best known for its Quicken personal finance management software, proposed that the courts ensure "operating system neutrality". By this he meant mechanisms to ensure equal access to the dominant Microsoft Windows operating system for all developers of personal computer software as well as internet publishers and services.

Whether or not Microsoft has coerced its rivals through its alleged monopoly power lies at the heart of the case brought by the Justice Department and 20 individual states.

"Since the operating system is essential for computing, and since the Windows operating system is dominant. . . it would be beneficial for all users – both consumers and companies – to have equal access," Mr Harris said.

Operating system neutrality would avoid exclusionary and discriminatory behaviour by Microsoft, he claimed. Computing had become as essential as electricity and telephone services and should be regulated much like these public utilities, he proposed.

Mr Harris' testimony comes as observers of the landmark antitrust trial are beginning to debate what "remedy" the US government should seek if it wins its case against Microsoft. Many legal experts believe that finding an effective way to curtail Microsoft's alleged bullying tactics without destroying a company that has become an icon of US high technology success could be an even bigger challenge than winning the hard-fought case. This makes Mr Harris' proposal critical to the government's case. Microsoft has said that his testimony is out of order, since it comes before the company has had an opportunity to present its witnesses or argue its defence.

In a stinging rebuttal, also issued just before the New Year holiday, Microsoft claimed that Mr Harris' testimony was "rife with rank speculations. . . and attempts at complex legal, technical and economic analysis by a witness who is neither an attorney, a software developer, nor an economist".

Most of Mr Harris' testimony was based on "half-baked analyses," Microsoft claimed. The idea of operating system neutrality was "an entirely new and irrelevant concept Mr Harris cooked up on his own".

'Computing service should be regulated in same way as utilities'

Microsoft has also filed a legal motion seeking to exclude several portions of Mr Harris' written testimony, claiming that the document "reads more like a position paper written by a lawyer representing one of Microsoft's competitors than the direct testimony of a . . . witness".

Judge Thomas Penfield Jackson may rule today on Microsoft's motion to exclude portions of Mr Harris' written testimony before Microsoft's lawyers begin their cross-examination.

Ironically, Mr Harris' written submission was prompted by the unusual procedures laid down by Judge Jackson in his efforts to avoid lengthy courtroom testimony. He has asked witnesses to make written submissions, rather than testifying in court. Yet as Mr Harris has demonstrated, this procedure provides opportunities for witnesses to address issues well beyond those that might typically be heard in the courtroom.

For Microsoft, the testimony of the Intuit executive represents a strange turn of events. In 1994, Intuit agreed to be acquired by Microsoft in a move that both companies endorsed publicly. The merger was abandoned only when the Justice Department raised objections.

AIR PATROLS IRAQ VOWS RESISTANCE

No-fly zones illegal, says Saddam

By Roula Khalaf in Baghdad

Iraqi President Saddam Hussein yesterday attacked the northern and southern no-fly zones as "illegal" and said his people would resist them.

Mr Saddam's first comments on the no-fly zones above Iraq patrolled by US and British warplanes came as diplomats in Baghdad confirmed that Iraq wanted the United Nations humanitarian mission in the country to stop employing US and British citizens.

Iraq has informed the UN that it will not renew visas for US and British workers on the oil-for-food deal in Iraq and will not issue new entry permits for employees coming back from holiday.

According to diplomats in Baghdad, Iraq said the move was prompted by concern over the workers' safety, following last month's US and British raids on the country. But it will be interpreted as retaliation against the US-led military strikes and as another way for Baghdad to defy Washington and London.

Last week, Iraq said it would not recognise the northern and southern no-fly zones and fired at US and British warplanes patrolling the regions. Mr Saddam said yesterday the exclusion zones were "flagrant and clear-cut violations of international laws, accords and norms, particularly the UN charter".

Al Thawra, the ruling Ba'ath party's newspaper, predicted yesterday that after a pause for the New Year, the US-Iraqi confrontation could escalate.

Speaking at a cabinet meeting, Mr Saddam accused Arab leaders who sought a postponement of an Arab League foreign ministerial meeting as "traitors" who were implementing the design of Iraq's aggressors. The meeting on Iraq, called by Yemen, was originally scheduled for last week, but has been moved to January 24. Mr Saddam said the postponement was designed to drown out the Iraqi question and add other issues to the meeting's agenda.

Iraqi officials yesterday refused to comment on the granting of visas of UN humanitarian workers. George Somerwill, spokesman for the UN humanitarian office in Baghdad, would only say that his office had received nothing in writing.

But diplomats said UN officials were holding talks with the Iraqis in an attempt to convince them to reverse their decision. The Iraqi move, said diplomats, would set a dangerous precedent for the Iraqi mission as well as for other UN missions. The UN may also become concerned about the safety of employees of other nationalities.

It is believed that the Iraqi decision will affect no more than 20 employees – most of them British – out of more than 500 UN workers involved in the oil-for-food programme, which allows Iraq to sell limited quantities of oil to buy humanitarian goods. UN observers ensure that food is distributed equally to the Iraqi population.

During the raids the UN withdrew most staff from Baghdad but left those in the north. The staff returned three days later.

Mr Somerwill said another 19 staff were returning to Baghdad yesterday from holiday. He declined to say whether they included Americans or Britons.

"These people are returning from their leave," he said.

"I do not envisage any problem with their return."

Yemen admits to shortcomings over warnings to embassies

The government was aware of increased terrorist activity several days before tourist kidnappings, writes **Robin Allen**

A top Yemeni government official has conceded that the country failed to warn foreign embassies that terrorist activity was being stepped up in the south of the country – even though it was aware of such activity several days before the kidnapping of western tourists in which four subsequently died.

The Aden-Abyan Islamic Army claimed responsibility for the kidnappings which took place last week and were ended by a fatal shoot-out with security forces.

Although the government says it arrested terrorists in Aden the previous week and kept the Islamic extremists' training camps in the Mudiyah area of the southern Abyan province under "surveillance", the official, speaking on condition of anonymity, acknowledged the government did nothing to warn western embassies to increase security or tour operators to stay away from hazardous areas.

As the kidnapping survivors flew out, teams from the FBI and Britain's special branch flew in to seek co-operation from the government in pursuing their own investigations.

Within 24 hours the FBI, said it had evidence the extremists were trained in camps run by Saudi-born Osama bin Laden. But senior Yemeni officials say the reality behind the terrorists' training camps and financing is much more complex.

According to the senior official who is close to Abdul-Karim Al-Iryani, Yemen's prime minister, the Islamic Army, now numbering several hundred, originated along with many other groups in southern Yemen some 15 years ago.

Police security was dropped just before attack on tourists

The groups emerged partly in response to the persecution of Islamic traditionalists by successive Soviet-backed Marxist governments. Many went on to fight the former Soviet Union in Afghanistan.

The various groups, known by the generic name of Islamic Jihad and active in other countries, were financed, and continue to be sponsored, by Saudi and Gulf Arab governments, either directly or through "charitable" organisations set up or indirectly sponsored by senior members of Gulf ruling families and merchants. Their motives vary from personal commitment to the Moslem activists; antipathy to perceived US-Israeli collusion against the Arab community in general and Iraqis and Palestinians in particular; or, in the case of Gulf governments, buying insurance to protect themselves against terrorist activity.

Southern Yemeni observers, who are sensitive to the charge that traditional Moslems suffered during the Marxist era up to 1989, insist these activists originated not in the south, but in Sa'da in the extreme north of Yemen.

After the end of the 1994 Yemen civil war, between 8,000 and 10,000 individuals of Islamic Jihad, including the future Islamic Army, installed themselves in two areas with president Ali Abdullah Saleh's blessing – around Ibb in northern Yemen, and Mudiyah in Abyan province.

The Islamic Army and affiliated groups first used violence against defeated southerners. But the government only started to take action after pressure from the US to deport extremists. This became particularly pronounced after the start of ongoing talks for the US Navy to lease facilities at a renovated Aden port.

In retaliation, the Islamic Army started attacking government installations. The government arrested many individuals, including Mohammad Haider Al Atwi, whose release was demanded by Abu Al-Hassan, the leader of last week's group of kidnappers. But the government still allowed the Islamic Army its training camp at Mudiyah.

Ten days ago, according to General Mohammed Turik, head of security for Aden, seven terrorists were arrested in Aden with explosives and plans to blow up the church at Tawahi, a hotel and the British consulate. Those detained were three Yemenis, three British nationals of Pakistani origin and one Algerian holding a French passport. According to independent observers in Aden, the British and French passports were forged.

The authorities did not inform any western embassy. According to Western diplomats the authorities were so unconcerned that police security for the tour group was dropped last Tuesday, just before the attack at Mudiyah.

The government only reacted when Abyan security forces received word from Abu Al-Hassan that the tourists had been abducted and that one would be shot every two hours unless the Islamic Army prisoners were released by 1pm. With no time left, the security forces immediately attacked.

Osama bin Laden: FBI claims he trained extremists AP

Bin Laden in shift on embassy bombings

Osama bin Laden, the exiled Saudi billionaire, appears to admit in a Time magazine interview that he instigated the terrorist bombing of two US embassies in Africa, AP reports from New York.

The interview seems to be the closest that Mr bin Laden has come to admitting a role in the attacks. He has previously denied any role.

Time said the interview was conducted on December 22 at Mr bin Laden's secret encampment in Afghanistan. He was specifically asked if he was responsible for the embassy attacks, and he couched his response in religious references – as he did with most questions.

"If the instigation for Jihad [holy war] against the Jews and the Americans ... is considered a crime, then let history be a witness that I am a criminal." Mr bin Laden said. "Our job is to instigate, and by the grace of God, we did that, and certain people responded to this instigation."

However, in a Newsweek interview conducted the same day, Mr bin Laden said he had no connection to the embassy bombings in Kenya and Tanzania that killed 224 people, including 12 Americans on August 7 last year. "I did not order them but was very glad for what happened to the Americans there." Newsweek quoted him as saying.

IMF could become world 'lender of last resort'

Bigger central bank reserves, more transparent financial systems and an enhanced role for the International Monetary Fund are possible responses to last year's financial crises, a senior IMF official said yesterday, Reuters reports from Washington.

Stanley Fischer, IMF first deputy managing director, said countries with large reserves had, by and large, coped better with the turmoil than those with smaller ones, and this was likely to prompt countries to rethink their reserve policy.

But efforts by emerging market economies to create current account surpluses to build up reserves could have a deflationary impact on the world economy, he said.

The text of his remarks, prepared for delivery at the American Economic Association in New York, was released in Washington in advance. "While volatility and contagion will always be with us, we can surely do better in reducing the frequency and intensity of emerging market financial crises, and the extent of contagion, than we have in the last five years," he said.

The IMF admits it was caught by surprise at the speed with which national financial problems spread, and at the way in which a crisis which started 18 months ago in Thailand became a plague infecting almost all the developing world.

Economic output is slowing around the world, although the IMF's last World Economic Outlook, released last month, still sees world growth of 2.2 per cent this year.

Mr Fischer expected fewer pegged exchange rates in the future as countries drew lessons from problems in Asia.

"The virulence of the recent crisis is likely to shift the balance towards the choice of more flexible exchange rate systems, including crawling pegs with wide bands," he said.

The IMF could build on its latest experiences to become an international lender of last resort – like a national central bank which can provide unlimited funds to a bank which has short-term problems and can provide collateral. "I would argue that the International Monetary Fund, although it is not an international central bank, has undertaken certain important lender of last resort functions in the current system – and that role can be made more effective in a reformed international financial system," he said.

Soros' personal view, Page 18

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NEWS DIGEST

INTERNATIONAL FOOTBALL FINALS

Call for soccer world cup to be held every 2 years

Sepp Blatter, president of the International Association Football Federation (Fifa), yesterday called for the World Cup finals to be played every two years.

Mr Blatter wants to improve the status of international football by holding the finals in each even-numbered year and has put his idea to the Fifa executive committee, which is studying it. "I am demanding a clear statement. Do we want national teams or do we only want club football?" he said. "The existing four-yearly tournament is out-of-date. It dates from the 1930s, when teams chugged from one continent to another on ships."

Mr Blatter's plan would see qualification for the finals take place in odd-numbered years when national teams would take part in continental tournaments.

The existing system of qualification for the world finals, where teams play international matches in groups over the course of the years leading up to the actual tournament, would be dropped.

Mr Blatter, who was elected Fifa president last June, said his proposals were a reaction to media tycoons across Europe, including Italy's Silvio Berlusconi, who are pressing for a European super league of top clubs. He said he was afraid that if the league went ahead, clubs would be unwilling to release their international stars. A competition every two years would give national teams the "status they deserve". PA

MARION BARRY BOWS OUT

New mayor for Washington

Washington D.C. has sworn in a new mayor, ending two decades of controversial politics under the leadership of Marion Barry, who earned worldwide headlines when he was caught smoking crack cocaine.

On his first day on the job as Mr Barry's successor, Anthony Williams, a self-described "bean counter" with a penchant for bow ties, called for an efficient, innovative government with a "real sense of community" in the US capital.

Mr Barry earned an earthy reputation during his mayoralty. A 1960s civil rights activist, masterful politician and self-admitted "night owl", he was caught smoking crack cocaine in a 1990 FBI sting operation. After serving six months in prison, Mr Barry returned to politics by being elected to the city council. He then won a fourth four-year term as mayor in 1994.

But with the city mired in debt, services almost non-existent and crime rampant, Congress in 1995 created an oversight board and eventually stripped Mr Barry of all but ceremonial duties. Mr Williams, whom Mr Barry had appointed as the city's independent chief financial officer, trounced a field of veteran local politicians in last November's election. Mr Barry had decided not to seek a fifth term as mayor. **Reuters, Washington**

INDONESIAN UNREST

Protesters clash with police

At least six people were reported killed in Indonesia's Aceh province yesterday when security forces clashed with demonstrators who set fire to government buildings, witnesses said.

Aceh's police chief, Colonel Juhamus Wiradanata, said security forces fired warning shots to disperse the crowds. He could not confirm a report from a human rights activist who said six bodies were found at the scene of the violence.

On Saturday evening, some 800 people rioted in Indonesia's second city, Suraybaya, torching a police station and shops after a man died in police custody. The man had been accused of breaking into shops. Police denied he had been tortured and said he died of his injuries. **Reuters, Jakarta**

CYPRUS GOVERNMENT

Socialists leave coalition

The socialist junior partners in Cyprus' governing coalition have pulled out of the administration because of the cancellation of plans to deploy Russian anti-aircraft missiles on the divided island.

"The vast majority clearly support the withdrawal from the government and so our departure should be considered a fact," said Vassos Lyssarides, socialist leader, speaking after a meeting of his Edek party. The move does not endanger the present administration, which is based on a presidential system, but does mean a cabinet reshuffle.

Glafkof Clerides, president of Cyprus, last Tuesday agreed not to deploy the S-300 missiles on Cyprus and instead negotiate to place them on the Greek island of Crete. The move followed intense international pressure to defuse a potentially explosive dispute with Turkey over the missiles. **Reuters, Nicosia**

BASQUE POLITICS

Nationalists boycott ceremony

A boycott by radical Basque nationalists of the weekend inauguration of the Basque government's new chief minister has underlined the complexity of the Spanish region's fledgling peace process following a ceasefire declared in September by the outlawed separatist organisation Eta.

Juan José Ibarretxe, a member of the mainstream Basque Nationalist party (PNV), was elected last week with a mandate to negotiate a peace agreement among Basque parties thanks to the votes of Euskal Herritarrok (EH), or Basque Citizens, a political coalition backed by Eta.

But EH boycotted the ceremony, saying that the event reflected partition of the Basque country they are trying to create and that Mr Ibarretxe was not the chief minister of all Basques. Radical nationalists seek a greater Basque nation, which incorporates the adjoining province of Navarre and ethnic Basque areas across the border in south-west France. **Tom Burns, Madrid**

CAMBODIAN GUERRILLAS

Khmer Rouge leaders still free

Two top Khmer Rouge leaders headed back yesterday to an area run by former guerrillas as the Cambodian government denied it was allowing those blamed for genocide to slip from its grasp.

Khieu Samphan and Nuon Chea left the north-west town of Battambang by military helicopter for Pailin, according to police. This followed six days of VIP treatment from the government that angered human rights groups and many Cambodians. Government spokesman Khieu Kanharith said the two were free to go because no warrant existed for their arrest. Their defection was announced on December 26 and followed widespread calls for them to face an international tribunal.

The prime minister, Hun Sen, who drew fire last week for questioning whether trying the two would be in Cambodia's interest, said on Friday he backed a trial but it was up to the courts to decide when and how to bring a case. **Reuters, Phnom Penh**

UN 'must continue efforts in Angola'

By Mark Turner in Nairobi

The United Nations must not pull out of Angola despite the recent increase in hostilities and the shooting down of two UN-chartered aircraft, Issa Diallo, the UN's special representative to the country, said yesterday.

"We cannot afford that," Mr Diallo told the Financial Times. "The population of Angola does not deserve it: we will be judged by history."

Drawing a parallel with events in Rwanda in 1994, he said that the international community had an obligation to provide humanitarian assistance to ordinary Angolans, and said it should continue to push for dialogue between the country's government and Unita rebels.

His comments came the day after a second UN cargo aircraft in just over a week came down near the embattled central highlands town of Huambo, with eight people on board. The South African-owned C-130 had been trying to move UN staff to safety.

Kofi Annan, UN secretary-general, expressed "outrage" at the event, and has reiterated calls for an "immediate ceasefire" to allow a search and rescue operation, and for personnel in Huambo to be relocated away from the fighting.

The fate of the 14 passengers on the C-130 cargo aircraft which crashed on December 26 remains unclear, even though the wreckage was located last week. The Angolan military has accused Unita of holding them hostage but Unita denies any knowledge of their whereabouts.

The Angolan government said on Friday it would co-operate with UN efforts to search for possible survivors but the territory around the crash is believed to be in rebel hands. Unita says it has received no formal request for help.

The growing risk to UN staff, and the apparent breakdown of the 1994 Lusaka peace protocol since full-scale fighting began in early December, have added to doubts about the presence of international observers in the country.

Mr Diallo, nonetheless, is adamant that the UN has a continuing role to play, and that peace remains feasible. "Despite recent events, the Lusaka protocol is a good compromise," he said. "Today we have a constitution that allows a multi-party system, a government of national unity, and an integrated army."

Acknowledging that conditions were making it increasingly difficult for the UN to fulfil its mandate – to oversee the implementation of the peace accord – Mr Diallo said that the international community had the strength to enforce compliance if it wished.

"The United Nations still has enough strength to reinforce sanctions, to request a ceasefire," he said. The UN Security Council has asked Mr Annan to make recommendations on the future role of UN peace monitors in Angola by January 15, for a mid-term review of its current mandate.

Sierra Leone peace hopes prove premature

By William Wallis in Lagos

When troops from the west African intervention force stormed into Freetown, the Sierra Leone capital, last March overthrowing the military junta and restoring the elected government, hopes were high that one of the continent's nastiest wars was coming to an end.

In the past two weeks that optimism has proved hopelessly premature. Rebels of the Revolutionary United Front and soldiers loyal to the ousted junta have once again brought the war to the outskirts of the crowded capital.

The intervention force failed to hold its ground while rebels captured their north-western headquarters at the town of Makeni and went on to attack towns and villages around Freetown.

The evacuation over Christmas of foreign nationals added to the panic, as did a statement by a United Nations envoy that the rebels – who have attacked and mutilated civilians and terrified them into supporting their cause – had gained control of half the impoverished country.

In the past week, Nigeria, which dominates the intervention force, has poured in at least 7,000 additional troops, according to spokesmen and officers, who said they aimed to bring the total force up to around 20,000.

That would make Nigeria's own commitment around a quarter of its army. Traditional hunting militias have fought alongside the intervention force, proving themselves the only native fighters consistently loyal to President Ahmed Tejan Kabbah's government.

Since the arrival of Nigerian troop reinforcements, the momentum appears to have swung back in the intervention force's favour, with several rebel attacks repelled with plans afoot for an offensive to retake Makeni. The long-term ability of the intervention force to bring a military solution to Sierra Leone's eight-year civil war, however, looks decidedly shaky.

The latest upsurge in fighting coincides with a deepening economic crisis in Nigeria with the 1999 budget forecasting a 34 per cent drop in revenues due to the collapsed price of oil, the country's principal source of foreign exchange earnings.

A senior Sierra Leone official acknowledged concern that it will be harder for an elected civilian government – due to replace Nigeria's military leadership by May this year – to justify the cost in spending and lives.

"When the politicians take over there are definitely going to be more questions," he said. He argued that this made the task of finding an enticing formula for the surrender of rebels all the more critical.

Sierra Leone officials complain that western support promised for the demobilisation of soldiers and rebels and the reformation of a national army has been woefully inadequate. They also claim fighters from neighbouring Liberia are swelling rebel ranks.

Bomb sparks fears for Sharif's safety

By Farhan Bokhari in Islamabad

A powerful bomb blast outside Lahore yesterday which claimed four lives, triggered fresh concern over the security of Nawaz Sharif, the Pakistani prime minister.

The blast blew up a bridge near Raiwind, a suburb of Lahore, shortly before Mr Sharif was due to drive over it. The explosion killed three men walking along the road and a police inspector who was among those making security arrangements ahead of Mr Sharif's journey.

Mr Sharif's family owns a farm in Raiwind, which is widely known as Mr Sharif's weekend retreat. Officials said that Mr Sharif was due to drive over the bridge on his way to the farm yesterday.

No one claimed responsibility. Police officials described the blast as an "act of terrorism", an implicit reference to an assassination attempt.

"Obviously it was targeting the person of the prime minister," said Mushahid Hussain, the government information minister. "The government has taken stringent measures to root out terrorism and this incident has further strengthened our determination to fight against this menace."

Some officials blamed activists belonging to Karachi's Mohajir Qaumi Movement (MQM). However, analysts said it was too early to hold any particular group or individual responsible.

Mr Sharif's ruling Pakistan Moslem League (PML) broke ranks with the MQM in the southern province of Sindh in October, after running a coalition government for 20 months. The break came after the killing of a former provincial governor of Sindh. Government investigators alleged that the suspects subsequently arrested were MQM activists.

The MQM has denied its involvement in terrorism, including the killing that caused the break. However, government officials say that the MQM, which is headed by Altaf Hussain who is exiled in London, has trained its activists in the use of firearms and explosives in an effort to combat paramilitary and police troops used in Karachi, the provincial capital.

Yesterday's blast comes as Mr Sharif faces an uphill task in restoring political stability in the country, despite the PML's large majority in parliament.

During his two-year rule, Mr Sharif has appointed a president, a supreme court chief justice and a military chief of his own choice in an effort to make his position unassailable.

However, the concentration of power has only intensified criticism from his opponents.

Sharif: 'obviously the target'

Quality of Indian village schools criticised

By Amy Louise Kazmin in New Delhi

A new study of Indian states with high illiteracy rates found that most impoverished villagers want their children to be educated but are deeply discouraged by the poor quality of their local government schools, which lack the necessary teachers or educational materials for meaningful instruction.

The Public Report on Basic Education was published by Oxford University Press and was based on a survey of school facilities in 188 randomly selected villages in the large north Indian states of Bihar, Rajasthan, Madhya Pradesh and Uttar Pradesh. It paints a dismal picture of a rural education system characterised by governmental apathy, demoralised teachers and dilapidated infrastructure.

Of the schools visited, only 23 per cent had a library, 33 per cent had a useable teaching kit and 41 per cent had any maps or charts to decorate the walls. Twenty-five per cent of classrooms lacked even a blackboard. In schools with teaching aids, the materials were often locked in cupboards since teachers fear being blamed for loss or damages.

Twelve per cent of schools had a single teacher to handle children of every age, while 21 per cent of schools that officially had several teachers had just a single instructor present when the survey was carried out.

Many overwhelmed teachers did little other than assign written exercises. The report also found that if every child between the ages of six and 10 regularly attended school, the average pupil/teacher ratio would 68.

Physical infrastructure was also poor. Of the schools surveyed, 60 per cent leaked severely, which forced classes to stop for weeks at a time during the rainy season. Fifty-nine per cent had no running water supply for children to drink or wash, and 89 per cent lacked a toilet. Only 29 per cent of the villages surveyed had an upper primary school, for ages six to eight.

High costs also prevent school enrolment. Although government schools do not charge tuition fees, parents are expected to buy uniforms, textbooks and other supplies, which can cost up to $7.50 per year per child.

The average adult Indian has spent just two years in school, compared with five years in China and over nine years in South Korea.

Yet public expenditure on education as a percentage of gross national product is declining. In 1991-92, India spent just 1.8 per cent of GNP on elementary education, a figure which dropped to 1.5 per cent in 1995-96. The report blames the neglect partly on the attitudes of middle and upper class Indians in positions of influence, many of whom are unconvinced of the relevance of educating impoverished villagers.

Start of Dhaka share scam trial

By David Chazan in Dhaka

Court hearings began yesterday in Dhaka, the Bangladeshi capital, in a much delayed trial of 34 prominent financiers and businessmen charged with insider trading and manipulating the stock market.

Hundreds of thousands of small investors lost their savings in a $100m share scam in 1996. The resulting market crash became known as the "slaughter of the innocents".

Small investors were attracted by a meteoric rise in share prices, which quadrupled in a few months. The regulatory authorities said a small group of well connected individuals and companies had driven the market artificially high. When they sold many of their holdings, share prices collapsed. The central bank estimated the losses to the market at more than $100m.

Among the defendants are the current and former chairmen of the Dhaka stock exchange, and the deputy chairman of Beximco, one of Bangladesh's largest industrial groups.

Charges were first brought in 1997 but those accused successfully appealed in a lower court. The government then took the case to the high court, which upheld the charges and ruled that the trial should proceed.

"It's important for this case to come to court because the 1996 share scam has left deep scars in the market," said M.A. Said, head of the Securities and Exchange Commission. "Public confidence cannot be restored unless justice is done."

Analysts said the stock market in Bangladesh has yet to recover from the plunge in 1996. Share prices are still low and few members of the public have since invested in the stock market.

The authorities have begun to reform Bangladesh's two stock exchanges, in Dhaka and Chittagong, in the past two years. Computerised trading has been introduced, undermining the illicit street trading in stocks, which once flourished in the street outside the Dhaka stock exchange.

Many Bangladeshis had expressed doubts that those responsible for undermining the stock market would ever face trial because of their position and influence.

China sees sunny growth rate but darker shadows

While state investment has helped to buoy the economy, business conditions are difficult, says **James Harding** *in Shanghai*

To judge from the increasingly voluble grumbling in recent months among foreign investors and traders operating in China, the country is a difficult place in which to do business.

Yet China reported what is likely to be the fastest economic growth in Asia last year. The State Statistical Bureau (SSB) reported last week that gross domestic product grew 7.8 per cent in 1998. That was just below the 8 per cent growth the government promised to achieve but a remarkably robust performance in comparison with Asian neighbours sunk in recession.

"The growth number was strong... but the quality of growth remains poor," says Dong Tao, economist at Credit Suisse First Boston in Hong Kong, to explain what he calls "the mystery of pretty good macro figures and pretty unimpressive micro figures".

In fact, the component statistics that Beijing released alongside the headline figures illustrate the imbalances developing as China grows – and the prospects for the economy, as well as business, in 1999.

The growth rate has been buoyed up by government spending on infrastructure. As the economy lost momentum in the first half of the year, the Beijing authorities turned to what analysts are calling a policy of "Keynesianism with Chinese characteristics". They sanctioned a government spending programme, allocating money to construct roads, railways, power lines and telecommunications networks.

The growth in state investment rose from 10.3 per cent year-on-year for the first quarter of 1998 to 28.2 per cent for the third quarter and was expected to be about 24 per cent in the last three months of last year, the SSB said.

Authorities say it was this splurge in state investment that reinvigorated the economy in the second half of last year. But senior members of the government have also acknowledged that China's growth figures have been "padded" by local officials anxious to advance their careers.

Many independent economists believe that the headline growth rate in 1998 was several percentage points lower than the 7.8 per cent reported. This, of course, has important implications for foreign companies operating in China.

In recent months, foreign operators in the financial services sector, such as Jardine Fleming and ING Barings, have been cutting back foreign staff to reduce costs, and large multinationals, such as Motorola, have continued to replace expatriate executives with local managers.

Some companies have scaled back their operations or, as in the case of Marks and Spencer, the UK retailers, pulled out of China after judging that in the near future the market would not sustain a profitable venture.

Even for the foreign investors entrenched in China for the long term, it has proven harder to make a return on investments as industrial overcapacity and depressed consumer demand have driven down prices. The retail price index was down 2.6 per cent in 1998, the first full year of deflation in more than a decade.

Ernst Behrens, president of Siemens in China, echoed a common sentiment of industrial manufacturers in the country in a recent interview: "The earning capacity is not satisfactory in China," he said.

Dong Tao says the government statistics confirm "a very bad operating environment in China" and suggest the gap between strong national economic growth and strained business conditions "may even widen next year".

Some companies have scaled back operations or pulled out of the country

Initial trade figures suggest this could be a problem for importers as well as foreign investors. China reported a record trade surplus of $45bn last year, but with zero growth in exports after a strong rise in 1997 its overall performance was driven by a 3.8 per cent fall in imports.

Foreign direct investment was also flat.

Arguably, more worrying is evidence that such persistent problems could act as a drag on corporate China. Excess capacity in many industries has shrunk margins so much that some manufacturers have found production unsustainable.

Government data show that 51.5 per cent of main industrial products – such as colour television sets, refrigerators and bicycles – were being overproduced. Inventories are rising.

Corporate earnings at profitable enterprises were 22 per cent lower in the first 11 months of this year, while losses at unprofitable companies rose 25 per cent, according to the SSB.

The difficult business conditions raise concerns about the pressures on social stability, as rising urban unemployment has alerted the government to the slowdown in new jobs being created in China. At the same time, Beijing has signalled its concern about the sharp decline in rural income growth in the last three years by pledging that "rural stability" is a priority for 1999.

EURO LAUNCH

After the fanfare, the facts of monetary life

With the champagne celebrations now over, **Wolfgang Münchau** provides the answers to practical questions about the new currency in Europe

Q: The euro has arrived with much fanfare. But what will it do for the European economy? Will it help reduce unemployment?

A: No. Many leading economists say economic and monetary union (Emu) is an economically neutral event – neither good nor bad. All it involves is a nominal changeover in currencies. Everybody accepts that Emu will create more liquid financial markets, and that will have some small effect on the economy. But most companies, industries and markets will continue as before. Optimists argue that Emu will unleash a more dynamic corporate environment with lower prices and more competition.

Q: So if monetary union has little economic effect, what is the point of it all?

A: Emu is primarily a political project. It is about political integration in Europe. In that sense, it is the logical extension of the "borderless" single European market, which had profound implications for decision-making in the European Union as it introduced majority voting. Emu will force countries to co-ordinate their macroeconomic and microeconomic policies. It may ultimately lead to what the French call European economic government.

Q: Will Emu trigger further political integration in Europe?

A: Probably yes, but not immediately. Emu is by itself a big political step. Its members lose sovereignty over monetary policy and will have to get used to co-ordinating fiscal policies. This means they will no longer be able to run large budget deficits without consent of the others. They may have to bring their tax systems closer together over time, although this does not mean that tax rates will be the same throughout the euro-zone.

Q: I hear economists talking about the risk of "asymmetric shocks" to monetary union – what does this mean?

A: Emu imposes a one-size-fits-all monetary policy for all its members. This could be a problem for countries with different economic circumstances. For example, the Irish economy is growing more strongly than the other 10 economies in the euro-zone, but Ireland is too small to influence the monetary policy stance of the whole Emu area. The Frankfurt-based European Central Bank, now in charge of monetary policy in the euro-zone, will look at the 11 countries as though they are part of a single economy. It will not pay special attention to individual countries. Countries facing particular pressures – as Ireland – will have to find other ways to deal with shocks, for example through more labour market flexibility or mobility.

Q: What about Britain, Denmark, Sweden and Greece, which have not yet joined the single currency? Will they enter Emu eventually?

A: Whether to join is a political decision for those countries, subject to meeting certain economic criteria, but a successful start to Emu will increase the pressure to participate. In the UK, for example, supporters of the single currency generally focus on the perceived economic benefits of Emu, such as lower mortgage rates, but they have yet to make a political case for joining.

Q: What about the currencies of the "out" countries? Will they be tied to the euro?

A: The Danish krone and the Greek drachma will be linked to the euro through a new exchange rate mechanism, which started on January 1. Britain and Sweden have declined to join the system. There is a dispute between those two and the others, about whether membership of the new exchange rate mechanism is a prerequisite for membership of monetary union.

Q: Can Emu collapse?

A: Theoretically, yes, but don't hold your breath. The consequences of a collapse would be so severe – economically and politically – that all euro members would find it in their interest to prevent that happening, even if it meant imposing painful fiscal measures. It is notable that during last year's financial market turmoil, although currencies outside the euro-zone were volatile, the euro-zone currencies hardly fluctuated against each other.

Q: What kind of currency will the euro be?

A: The euro may gyrate wildly in the short run, as financial markets make up their mind whether they want to hold more or fewer euros. In the medium term, one would expect the euro to be a strong currency. The euro-zone has a strong and independent central bank and inflation has almost disappeared.

Q: Will the euro challenge the supremacy of the dollar?

A: It will, but not immediately. The euro will be a bigger currency than the 11 constituent currencies combined. This has to do with liquidity. The fact that the euro covers 11 countries means it will be far more liquid than the DMark or French franc were on their own. The euro-zone is about the same size as the US economy. Economists believe the world economy will increasingly revolve around the US and the euro-zone. The euro will also become a large international reserve currency.

Q: What kind of central bank will the ECB be? Will it be obsessed with inflation and ignore economic growth?

A: The ECB operates under a legal obligation to maintain price stability in Europe, and this limits the degree of freedom to use monetary policy to encourage economic growth. European central bankers believe that unemployment and low growth have little to do with monetary policy anyway but with structural rigidities in the countries themselves. The ECB, however, has said it will not tolerate either inflation or deflation. It defines price stability as an increase in euro-zone inflation of less than 2 per cent.

Q: What practical benefits will Emu bring to the average citizen?

A: Travellers will benefit for obvious reasons, particularly after notes and coins are introduced in 2002. But from now it will be easier and cheaper to transact business across borders, the cost of changing money within the euro-zone will come down, and the euro is also likely to be the currency of choice for electronic commerce via the internet in Europe.

Q: Who are the four most important people in the euro-zone?
A: (Pictured l to r) Wim Duisenberg, president of the ECB, Oskar Lafontaine, German finance minister, Dominique Strauss-Kahn, French finance minister, and Yves-Thibault de Silguy, the European commissioner for economic and monetary affairs

Q: It is conventional wisdom that the euro's arrival will mean prices for a product converge across the euro-zone. But is this really so?

A: Maybe. It is true that price differences are generally larger inside the euro-zone than in comparable economies, such as the US. One would expect prices to adjust, but it is unclear whether the price transparency that comes with the euro will affect purchasing behaviour. It is true that consumers will be able to compare prices in the same unit of account. But Europeans could have compared cross-border prices before the arrival of the euro – particularly on big items, such as cars.

Q: But what happens if companies face different costs in, say, Portugal and Germany?

A: Emu ultimately involves the creation of a single economy, within which one would not expect different cost structures to persist for ever. Currently, cost differences are mostly due to differences in wage costs. Within economic and monetary union, wages will adjust over time. Broadly, real wages in Germany will remain stuck at current levels, while Portuguese wages slowly rise to German levels. The same applies to competition. One would not expect fundamentally different competitive environments to persist in a single market.

Q: Why is there so much fuss about preparations? Surely, the euro is just another currency?

A: That's not quite right. The euro will eventually be just another currency, but between now and the first half of 2002, when coins and notes are introduced, it will co-exist with national denominations. This transitional phase is the cause of most of the technical problems. In this period everyone operates under the rule of "no compulsion, no prohibition". This means everyone has the right to pay in euros or national denominations. Nobody can be legally forced to transact in euros.

Q: So what do I need to do?

A: That depends on many things, such as whether you are based or have subsidiaries inside the euro-zone, the extent to which you trade with the euro-zone, and what kind of business you are in. The level of preparedness is obviously highest for banks, while small retailers need to worry less because euro banknotes and coins will not arrive until 2002. In most cases, companies should have the capability to handle payments by customers either in euros or in national denominations. This would probably involve changes to computer systems.

Q: And if I have done all these things already?

A: Congratulations, and welcome to the euro-zone. Starting today, you should be able to trade freely in what is already, alongside the US dollar, one of the world's largest currencies.

FOR NEW CONVERTS – HOW TO CALCULATE IN EUROS

Q: What are the most important rules I have to keep in mind about the euro and the national denominations?

A: First of all, you must use the official euro conversion rates, which were announced last Thursday.

You will need to apply these conversion rates exactly, which means you should apply them to a precision of six relevant digits.

Be warned that several computers, including some older versions of popular spreadsheet programs, may not be capable of handling this type of calculation.

You should follow the mathematical rounding rule that a value of 0.005 should be rounded upwards to 0.01. And you should not use bilateral conversion rates.

Q: Why not? It would make life a lot easier if I did not have to go through the euro each time I convert from francs to D-Marks.

A: It would, but you can be sure that the accumulated rounding errors would become significant if you took this approach.

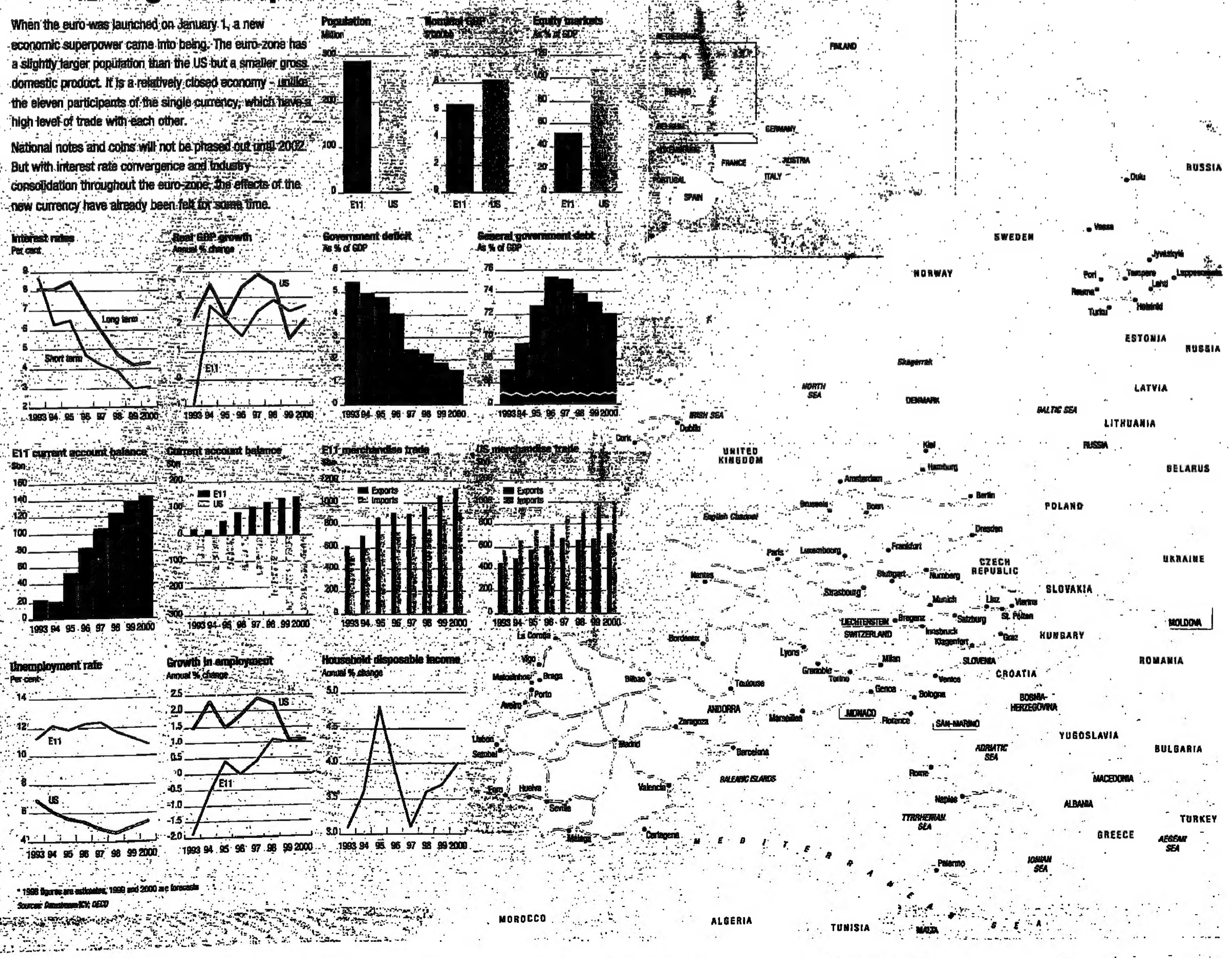
Q: So how do I get from francs to D-Marks?

A: Through a principle called triangulation. This means that you convert francs into euros, and euros into francs, and each time you apply the six digit rule. That means that every bilateral conversion between two national denominations involves two calculations.

Redrawing the map: the euro arrives

When the euro was launched on January 1, a new economic superpower came into being. The euro-zone has a slightly larger population than the US but a smaller gross domestic product. It is a relatively closed economy – unlike the eleven participants of the single currency, which have a high level of trade with each other.

National notes and coins will not be phased out until 2002. But with interest rate convergence and industry consolidation throughout the euro-zone, the effects of the new currency have already been felt for some time.



* 1998 figures are estimates, 1999 and 2000 are forecasts
Source: Datastream/ICV; OECD

MOTOR INDUSTRY $50M BOOST FOR BIG-ENGINE PRODUCTION AT ELLESMERE PORT

Vauxhall to expand Merseyside plant

By Haig Simonian in Detroit

Vauxhall will soon announce a *significant* new investment in additional capacity at its big-engine plant at Ellesmere Port on Merseyside, in the north-west of England, giving a boost to the UK motor industry.

Details of the spending, believed to be between £30m ($50m, €42m) and £40m, may emerge at the Detroit motor show this week. Much of the extra output will be destined for the new mid-sized L-Series model being introduced later this year by Saturn, the US subsidiary of General Motors, Vauxhall's parent company.

Additional V6 petrol engines, for which Ellesmere Port is GM's sole source, will also be exported to Saab, the Swedish carmaker controlled by the group.

Saturn expects to build at least 100,000 units of its new car, based on the latest Opel/Vauxhall Vectra, when production starts at Wilmington, Delaware, later this year.

The company said the number of engines exported to the Saturn subsidiary would depend on the mix of US-built four cylinder and UK-made V6 models sold.

Demand from Saab is expected to climb because of rising sales of the group's new 9-5 executive model. Demand for the car, released in 1997, is expected to grow substantially with the introduction of a station wagon this year.

The new spending at Ellesmere Port is not, however, expected to create many jobs, as most of the increased output will come from higher productivity.

Vauxhall said it would not be applying for government aid – for which Ellesmere Port qualifies – as the impact on employment would be limited.

The company has already attracted state funds under the Regional Selective Assistance scheme after boosting output of Astra cars, built at an adjacent plant. Last year, Vauxhall boosted local employment figures by hiring 1,000 staff for a third shift.

The company made about 78,000 V6 engines last year. Apart from going into Vauxhall cars, the motors generate substantial export income through sales to Saab and to Opel in Germany, for the Omega and Vectra models.

GM Cadillac, Page 20
GM Special Report, Page 22

Minimal growth forecast for flagging economy

By Peter Marsh

Britain will see minimal economic growth over the next two years, but is likely to avoid an outright recession this year, according to forecasts published today by Cambridge Econometrics, an economic consultancy.

With household spending and investment likely to slow substantially during 1999, manufacturing will see a decline in output, with many of the difficulties experienced by this sector spilling into services, the consultancy says. It expects inflationary pressures to ease further, with the year-on-year increase in the retail prices index expected to average 1.9 per cent during 1999, after an average 3.4 per cent in 1998.

The findings will put pressure on the Bank of England's monetary policy committee, responsible for setting base interest rates. The committee meets this week to discuss whether further monetary easing is required to stimulate the flagging UK economy.

Over the past six months, economic activity has faltered as a result of high interest rates compared with much of the rest of Europe, the appreciation in sterling, and economic weaknesses in important export markets such as south-east Asia.

Reacting to these signs of slowdown, the committee has reduced borrowing costs on three occasions in the past three months. At its last meeting in December it cut bank base rates by 0.5 percentage points to 6.25 per cent. Many economists expect the committee to keep base rates on hold for now, with a further cut expected in February.

Even so, "there is a substantial minority in the City [of London] expecting a cut of a further 0.25 percentage points to reduce the risks of Britain moving into recession," said Steve Hannah, chief economist at IBJ International, the securities arm of the Japanese bank.

The Cambridge Econometrics report says exporters are likely to face more difficulties this year, after a fall-off in export growth last year linked to the strength of sterling and weaknesses in the world economy. Partly as a result of this, manufacturing will experience a technical recession – output falls in two consecutive quarters – during 1999. Total UK output will increase 0.6 per cent in 1999, with a 1 per cent rise next year, following a relatively healthy 2.8 per cent increase during 1998.

While manufacturing has been in the doldrums for two years, with growth in output last year of 0.5 per cent following a minimal 1.5 per cent rise in 1997, the service sector has been more resilient. For instance, "market services", covered by industries such as hotels, business services and distribution, expanded by nearly 5 per cent last year.

However, during 1999, output growth in this sector will drop to 1.5 per cent, the consultancy believes, with some sub-sectors such as telecommunications and computer services likely to continue to see substantial growth. Some relief for hard-pressed exporters will come from an expected easing in the exchange rate.

Against a basket of other currencies, sterling is likely to be traded during 1999 at 5.3 per cent below its value last year. Valued against the D-Mark, the pound is likely to fall to an average of DM2.7 (€1.38, $1.62) this year after DM2.88 in 1998.

NEWS DIGEST

NORTHERN IRELAND

Irish prime minister hints at Easter peace deadline

Easter is looming as the new deadline in the Northern Ireland peace process, with Bertie Ahern, the Irish prime minister, yesterday indicating that unless the arms issue is resolved by the first anniversary of the Good Friday peace agreement public support for the deal could evaporate.

"We will have to overcome the items on the agenda which caused difficulties and that will include [arms] decommissioning . . . but I think in the run-up to Easter we will be able to do that," he said.

With Easter falling in early April, Mr Ahern has tacitly conceded that the February target date set by London for the establishment of the executive to take over running the province when powers are transferred from London, has now been abandoned. **John Murray Brown, Dublin**

ROVER

BMW chief presses for aid

Bernd Pischetsrieder (left), chairman of BMW, the German carmaker, has reiterated his determination to win UK government aid for the group's lossmaking Rover subsidiary. His push comes despite the recent agreement with Rover employees over working arrangements, which will produce DM400m (€205m, $235m) in annual cost savings. In an interview with today's Der Spiegel magazine, Mr Pischetsrieder noted subsidies received by Jaguar – which would provide direct competition to the new Rover 75 model.

Mr Pischetsrieder also explicitly admited BMW had given Rover, acquired in early 1994, too "long a leash". Quality improvements had taken too long. But he added: "Now we have taken Rover much closer by the bit". **Ralph Atkins, Bonn**

MOTOR INDUSTRY

Peugeot UK may build Citroën cars

Peugeot UK is to be more closely integrated into the French parent Peugeot/Citroën group, raising the long-term prospect of Citroën as well as Peugeot models being built at the UK subsidiary's Ryton plant near Coventry in central England.

The closing of a once large productivity gap compared with French plants, the expected announcement of a fifth consecutive year of profits and a recruitment drive starting today for 900 more workers have put the UK company on course to play a more strategic role in its parent company's operations.

While the model being built at the plant, the Peugeot 206, was new last year and has only recently gone into production at Ryton, its successor will use a common platform – the basic engineering structure of a car – with the next similarly-sized Citroën model. This opens up the prospect of Ryton early next century meeting demand for a model carrying both brand names. **John Griffiths, London**

SCOTTISH NATIONAL PARTY

Row over defence paper

The Scottish National party's defence policy was in disarray yesterday after Stuart Crawford, its newly appointed deputy defence spokesman, disowned an academic paper in which he had said an independent Scotland "should at least consider" the use of ballistic missiles tipped with chemical and biological weapons.

George Robertson, UK defence secretary, said that if Mr Crawford, an SNP candidate for the planned Scottish parliament, was the author of the paper he should be removed.

Mr Crawford said the paper, written under an assumed name for Glasgow University's Centre for War Studies, was a "speculative review" of defence options.

He said: "I wish to put on record that I have never at any time advocated the possession by an independent Scotland of nuclear, chemical or biological weapons. I am totally supportive of SNP defence policy which repudiates utterly the possession of nuclear, chemical or biological weapons." **James Buxton, Edinburgh**

TAXATION

Exemption certificates proposed

Taxpayers aged over 65 with an annual income lower than £10,000 should be issued with certificates cutting them off from contact with the tax system, according to the UK's leading tax body. The proposal – one of several designed to help the 10m people over state pension age of whom 1.8m live in poverty – has been put forward by the Chartered Institute of Taxation to help older people caught up in tax bureaucracy. Under the plan, those qualifying would be entitled to get all income "gross" with a minimum of form-filling, and would not be required to fill in any tax returns or deal with any correspondence unless linked to the exemption. **Jim Kelly, London**

POLITICS

Blair may boost Lib Dem links

Tony Blair, the UK prime minister, is considering attaching civil servants to the opposition Liberal Democrat party to help them develop government policy.

He has also discussed with Paddy Ashdown, the Liberal Democrat leader, the possibility of giving his party greater access to confidential government papers.

Mr Ashdown believes the initiative could help his party contribute more effectively to the joint Lab-Lib cabinet committee, set up in 1997 to discuss constitutional issues. By giving the Liberal Democrats access to the civil service, Mr Blair would be signalling his intention to continue building links between the parties.
George Parker, London

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
African Dev Bank 11⅛% Ln 2010 £5.5625
Amec 2.1p
BICC 4p
Baxter Int $0.291
Bowater $0.20
Bradford Property Tst 4.4p
British Aerospace Cv Rd Pf 3.875p
Bunzl 2.5p
Cambridge Water 5.33p
Do N/Vtg 5.33p
Do 4% Cons Perp Db £2.0
Do 13% Rd Db 2004 £6.50
Carlton Comms Cv Rd Pf 3.25p
CPL Aromas 1.9p
Exeter Inv Tst 4.5p
F & C Special Utilities Inv Tst 3.69p
Do Package Units 3.69p
Do S 2.23p
Fortnum & Mason 4p
Gencor 6% Gross Cm Pf R0.06
General Accident 8⅞% Cm Pf 4.4375p
Guardian Royal Exchange 4.3p
Guinness Flight Extra Inc Tst 2.12p
Do Units 2.12p
Henderson Far East Inc Tst 1.7p
Hercules Property 4p
HIT Entertainment 0.55p
Housing Fin 9⅝% Db 2025 £4.8125
Johnson Service Cv Rd Pf 3.75p
Land Securities 7.85p
Lloyds Bank 12% Sb Bd 2011 £1200.0
Locker 0.3p
Lyles (S) 2p
Macdonald Hotels 1.82p
Martin Int 0.55p
McCarthy & Stone 3.5p
McKechnie 14p
MEPC 10¾% 1st Mtg Db 2024 £5.375
Met Water Board East London Waterworks 3% Db £1.50
Morrison Construction 1.98p
Mucklow (A&J) 4.0264p
New South Wales Treasury 11½% Gtd Exch Bd 1999 A$575.0
Photo-Me Int 4.5p
Premark Int $0.10
Rio Tinto 3.325% A Cm Pf 1.6625p
Do 3½% B Cm Pf 1.75p
Savoy Asset Mngmnt 2.25p
Sears Roebuck $0.23
Silentnight 3.7p
South Staffs Water 37.5p
Stratagem 3p
TBI 0.5p
Temple Bar Inv Tst 4.2% Cm Pf 2.1p
United Biscuits 3.6p
Vitec 4.3p
Warner Howard 3.85p

■ TOMORROW
Adam & Harvey 8p
Airflow Streamlines 2p
Annuities 2½% £0.625
Annuities 2¾% £0.6875
BWI 3p
Banner Homes 1p
Birmingham Midshires Bldg Scty 9⅛% Sb Nts 2006 £4562.50
British American Tobacco 8p
Brown (N) 2.4p
Browning-Ferris $0.19
Business Post 5p
Cafe Inns 1.1p
Consolidated 2½% £0.625
Coventry 8¼% Ln 2026 £4.125
Croydon 3½% £1.75
Dee Valley 7.2p
Do N/Vtg 7.2p
East Surrey 4.4p
Edinburgh Inc Tst 0.9p
European Colour 0.955p
Do 6½% Cm Pf 6.3p
European Telecom 0.9p
Hurlingham Properties 1p
Jarvis Porter 2.5p
Murray Smaller Mkts Tst 2p
Nat West Bank 12½% Sb Un Ln 2004 £6.25
Powell Duffryn 8p
Salford 8¼% Ln 2027-31 £4.125
Saville Gordon 7⅝% 1st Mtg Db 2023 £3.1825
Unigate 7.9p
Walker Crips Weddle Beck 1.75p
Westbury 2.6p

■ WEDNESDAY JANUARY 6
AIT 0.83p
Bandt 0.5p
Black Arrow 1.5p
Body Shop 1.9p
British Assets Tst 1.36625p
British Empire Sec & Gen Tst 0.86p
Close Brothers AIM VCT £1.875
Delyn 1p
Development Secs 11% 1st Mtg Db 2016 £5.50
Great Portland Estates 3p
Ivory & Sime UK Smaller Co's Tst 1p
Luminar 2.5p
Mitsui FRN 1999 Y12778.0
Morgan Crucible 7.4p
Do Cv Pf 3.75p
Photobition 1.28p
Pillar Property 2p
Scottish American Inv 1.36p
Scottish Metropolitan Property 2p
Sedgemoor 0.6p
Shanks & McEwan 1.6p
Sims Food 0.25p
Smith (WH) 5⅛% Rd Un Ln £2.5625
Smiths Inds 12.9p
Wardle Storeys 15p
Whitbread 10½% Un Ln 2000-05 £5.25

■ THURSDAY JANUARY 7
Anglian Water 12% Bd 2014 £1200.0
Asahi Breweries 7% Bd 1999 Y700000.0
Baird (Wm) 4.1p
European Motor 2.6p
Freeport Leisure 1p
Furukawa 5.55% Nts 2000 Y555000.0
Guaranteed Export Fin 9¾% Gtd Ln 2010 £487.50
Hicking Pentecost 2.7p
Hidden Hearing Int 1.03p
Kobe Steel 6.9% Bd 2000 Y690000.0
Kubota 6.9% Bd 2000 Y690000.0
Mercury European Privatisation Tst 0.65p
Sapporo Breweries 5.9% Bd 2003 Y590000.0
Second Scottish National Tst 0.8p
Sony 6⅞% Bd 2000 Y687500.0
Staveley Inds 2.5p
TGI 1.2p
Tracker Network 2.5p
United Kingdom FRN 2001 $12.94

■ FRIDAY JANUARY 8
Abbey National Treasury 9% Gtd Bd 2004 L450000.0
Anglo American Corp of South Africa R2.75
Belhaven Brewery 2.35p
Corporate Services 7½% Cv Nts 2005 £37.50
Cradley 1.38p
Cropper (J) 1.4p
Dart 1.27p
Eleco 0.25p
EMAP 5.7p
Fine Art Devs 2.25p
Formscan 1.5p
Friendly Hotels 2.3p
Grantchester 0.7p
Inter-American Dev Bank 12½% Ln 2003 £6.25
Invesco English & Int Tst 0.8p
JBA 1.25p
Majestic Wine 1.7p
Schlumberger $0.1875
Scottish Inv Tst 2.25p
Scottish Value Tst 1.25p
Solid State Supplies 0.5p
Southnews 4p
Tiger Oats R1.20
Do 5½% Gross Cm Pf R0.055
Treasury Fltg Rate 2001 £1.7801

■ SATURDAY JANUARY 9
Govett Strategic Inv Tst 4.85p

UK COMPANIES

■ TOMORROW
COMPANY MEETING:
Diploma, The Brewery, Chiswell Street, E.C., 11.00
BOARD MEETINGS:
Interims:
Euclidian
Precoat Int

■ WEDNESDAY JANUARY 6
COMPANY MEETING:
MMT Computing, 14, Angel Gate, City Road, E.C., 11.00

■ THURSDAY JANUARY 7
COMPANY MEETING:
Formscan, Woolverton House Hotel, Woolverton, Bath, 11.00
BOARD MEETINGS:
Interims:
Abbey
Goode Durrant
Solvera

■ FRIDAY JANUARY 8
COMPANY MEETING:
GET Grp, 222, Grays Inn Road, W.C., 3.00

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES AND COURSES

CONFERENCES

January 26 & 27
Stakeholder Pensions - The Government's Proposals
The First Annual Convention for Stakeholder Pension Providers will examine the full implications of the Green Paper, how stakeholders will be set up and the effects on existing pensions. Top level contributions from DSS, HM Treasury, Inland Revenue, Prudential, Direct Line, L&G, NPI, Aon, B&W, Mercer, NAPF, SPC, Institute of Actuaries etc.
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Fax: + 44 (0) 171 582 7245
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JANUARY 27 1999
East Africa Seminar
This one-day FT seminar brings together senior ministers from the three East African countries and representatives from the international business community to examine recent progress in the East African co-operation process.
Contact: Catherine MacSweeney
FT Conferences
Tel: +44 171 873 3162
Fax: +44 171 873 3067
e-mail: catherine.macsweeney@ft.com
LONDON

FEBRUARY 15 1999
FT London Motor Conference
Productivity and competitiveness in the UK motor industry and the impact of "grey imports" on the new and used car market are among the key issues to be discussed. Speakers include: Professor Garel Rhys OBE, Cardiff Business School, Mr Graham Broome, SMMT Industry Forum and Mr Michael Woodward, KPMG Management Consulting.
Contact: Joanna Edwards
FT Conferences
Tel: +44 171 873 3374
Fax: +44 171 873 3067
email: joanna.edwards@FT.com
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February 23 & 24
Supply Chain Management: Internet Strategies & Best Practice
A two day conference of case studies and briefings examining the impact the internet can have, and the opportunities it provides, for people, profits, partnerships and strategies.
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Millenium Conference Centre, LONDON

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MARCH 3 & 4 1999
FT New Media Conference
In the aftermath of the launch of digital television in the UK, the Financial Times New Media conference will examine the state of play in the digital market. Issues for debate include: opportunities for new entrants, the impact of competition on the existing networks and the consumer's viewpoint.
Contact: Catherine MacSweeney
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Fax: +44 171 873 3067
email: catherine.macsweeney@ft.com
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March 9...
International Hotel Investment Forum. A Focus on Europe
A powerful and thought-provoking conference on today's complex and rapidly changing European hotel markets will provide a timely forum to address issues important to the European and international hotel investment community.
Conference Chairman - Sir Ian Prosser, Chief Executive of Bass PLC
Contact Tess Pearson, Advanstar Communications
Tel: 01244 378888
Fax: 01244 370011
INTERNATIONAL HOTEL INVESTMENT FORUM
Hotel Inter-Continental Berlin, Germany

MARCH 18 & 19, 1999
FT European Pensions
This conference, the first in a series of Pensions events to be arranged by the Financial Times Group will examine the challenging shape of European pensions, issues to be considered include: the challenges facing the multinationals, the euro - three months in and the European legal framework.
Contact: Catherine MacSweeney
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APRIL 22 & 23
FT World Pharmaceuticals
The pharmaceuticals industry now faces unprecedented challenges as we enter the millenium. This FT conference will reflect on the industry's successes and investigate the new challenges being set by its customers and sponsors, considering how it will need to shape itself for the first decade of the 21st Century.
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Conferences & Courses

COURSES

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INSIDE TRACK

PROFILE FRANCK RIBOUD, CHAIRMAN AND CHIEF EXECUTIVE OF DANONE

Ahead of the crowd

John Willman and **Samer Iskandar** find the French business chief has a commitment both to shareholder value and outrunning the competition

There is nothing Franck Riboud likes quite so much as to be in the crowd at a football match.

"A stadium with 50,000 people is a wonderful thing," says the tousle-haired chairman and chief executive of Danone. "I love to be part of the *fête* [party]."

Understandable for a self-confessed sports fanatic who has just joined the board of Paris St Germain, one of France's leading soccer clubs. But not what one would expect from a French business chief who delights in standing out from the crowd with his commitment to Anglo-Saxon concepts such as shareholder value.

Yet Mr Riboud sees no difference between playing the sports he loves and running a large consumer company on behalf of the shareholders. Whatever you do, you should aim to be in the top team – and that means outrunning the competition using all the weapons available to you.

"Better a good *garagiste* [mechanic] than a bad *bachelier* [high school graduate]," as his father Antoine, who founded Danone 30 years ago, used to say.

"It didn't matter so much if I didn't do well in class," says Mr Riboud. "But with football or skiing or tennis, my father always said you were wasting your time if you weren't in the best team."

Shareholder value has certainly helped Danone pull away from its competitors in the two and a half years since Mr Riboud succeeded his father at the helm. The group, once a sprawling food conglomerate, has been dramatically transformed into a business which focuses on dairy products, biscuits and water.

Low-margin businesses such as grocery and confectionery, which accounted for more than 10 per cent of sales, have been sold. The BSN glass container division – the original Danone business – has been pooled in a joint venture with Gerresheimer of Germany for stockmarket flotation in the future.

The group has bought back shares, jumped over the necessary corporate governance hurdles for a Wall Street listing and adopted return-on-capital targets to measure performance. The reward has been a doubling of the share price since Mr Riboud unveiled his restructuring in May 1997 – a stock market reassessment that has catapulted Danone into the league of giants that includes Unilever and Nestlé.

Mr Riboud says his strategy is very simple: "We asked ourselves how we could match those companies two or three times bigger than us while competing with specialists half our size, such as Kellogg's or Barilla. We decided to refocus on products where we have leading positions with the greatest growth potential."

In fresh dairy products, such as yoghurts, Danone has 15 per cent of a global market valued at $37bn (£22bn) and there are no close contenders for the title of world's biggest yoghurt maker. Its share of the $34bn biscuit market, at 8 per cent, is far ahead of Nabisco, the number two.

In bottled water, Evian and the rest of the group's stable have more than 10 per cent of the

'I was born in the right place but if I had not been the right man for the job, I would not have got it'

$21bn global market, coming second only to Nestlé. Danone has recently boosted its position in the US market by buying Aquapenn, which should produce cost savings as the two businesses are merged and take it into third place.

"The bottled water market is growing at 15 per cent a year," says Mr Riboud. "The potential is huge – western Europeans drink around 100 litres a year, while Americans drink 15.

"If you have the brands and the strategy, you can imagine everyone could drink the same amount [in the US] as in Europe. There is the same potential in biscuits. And in dairy products, we have 15 per cent of the global market but we get that from just 8 per cent of the world's population."

He also expects to gain market share from the growth in consumption of branded products.

"Look at India, where the market for biscuits is 1m tonnes a year, of which 360,000 tonnes is branded. Our share of the branded segment is 39 per cent but every day of every year consumers with growing buying power switch from bulk products to branded packs."

Danone, the brand, already has sales of FFr25bn (£2.65bn) a year, making it one of the world's largest in food. The group's top five brands account for more than half the FFr90bn annual sales.

"The brand strategy is clear: as few brands as possible with maximum turnover behind them. That allows you to maximise advertising spending, new product development and research."

The faster growth in branded products in emerging markets is behind another of Mr Riboud's targets: to raise sales outside western Europe from around 5 per cent of the total in 1992 to a third by 2000. Today it has reached 24 per cent, helped by acquisitions such as Acqua, Asia's largest water business, and Delicja, the leading biscuit-maker in Poland.

The disposals are largely over, he says, if only because selling any of the remaining businesses at current interest rates is likely to dilute earnings. That applies particularly to Danone's brewing operation: Kronenbourg in France has more than half the market, while San Miguel is the leader in Spain with almost a third of market share.

"This a very good business in terms of cash-flow. It creates value for the shareholders," Mr Riboud enthuses.

"I have the leading brands in France and Spain and no one can touch me in those countries. Within two or three years, there may be some consolidation in the European brewing industry and we will have two beautiful tickets for that.

"It is not for sale," he adds emphatically.

At 43, Mr Riboud has emerged from his father's shadow. He evidently gets great enjoyment out of running a business he says he never intended to join.

After graduating as an engineer, his intention was to pursue his love of sports by working for Rossignol, the ski manufacturer, in the US.

He had spent a year wind-surfing with France's world championship team and decided to get some business experience with Danone's Panzani pasta subsidiary while waiting for his green card. The North American snows failed two years in succession, Rossignol closed its US factory and Mr Riboud decided to stay with the family company.

"I started as a sales representative without any idea of becoming chairman. I just did my job step by step as a good rep and a good manager.

"My father never told me I was going to be chairman – that was never his idea. The first time he discussed it with me was when I was running the Evian company in 1992, four years before I became chairman.

"I was born in the right place and I have been very lucky but if I had not been the right man for the job, I would not have got it."

Looking ahead, Mr Riboud sees his main challenge being to keep Danone evolving and to stay ahead of the competition.

"Ours is not a one-shot strategy. We are living in a fast-moving world that is changing more quickly than ever. A group like Danone has to be very flexible, very responsive."

Essential Guide to Franck Riboud

Born: November 1955.
Education: graduated with a diploma in engineering from the Ecole Polytechnique in Lausanne, Switzerland in 1979.
Career ladder: joined the BSN Group in 1980 and worked in a variety of jobs, primarily in sales and marketing. Positions included brand manager, sales representative, regional manager, sales manager, key account sales manager and department manager at head office. Has worked in most of the group's divisions, including grocery, fresh dairy products, biscuits and mineral water.

Was involved in the 1989 acquisition of Nabisco's European operations, then the largest acquisition in the US by a French group, which made BSN Europe's biggest biscuit-maker. General manager of Evian Water in 1990, he acquired Volvic in 1992 and launched a new mineral water: La Salvetat.

Became general manager, development in 1992. Responsible for the internationalisation of the group which led to the adoption of the Danone name in 1994. Joined the board in August 1994 as vice-president and was appointed chairman and chief executive, succeeding his father Antoine, in May 1996.
Aims:
- to refocus Danone around fresh dairy products, biscuits and beverages – mainly water.
- to internationalise the group by raising sales outside western Europe to 33 per cent of total.
- to lift sales of Danone brand to FFr40bn a year by 2000.
- to raise operating margins to at least 10.5 per cent.
- to achieve a return on invested capital of 10 per cent.
- to apply economic value added throughout the organisation.

Corporate culture: an international group that brings together people from many nations who respond to the challenge of working for Danone. Top executives come from a range of companies, including PepsiCo, Procter & Gamble and Benckiser. Wants the culture of the group to be "Latin" in its openness to new ideas, the enthusiasm of those who work for it and its "humanism".
Time out: loves all sports, including football, rugby, tennis, skiing and sailing. Board member of Paris St Germain. Reads *L'Equipe* every day. Father of three children. Likes to get away from work at weekends to spend time with his family. Believes "life balance" between work and play is essential.

TIM JACKSON
ON THE WEB

Online shopping with a click on your wallet

A piece of software which stores personal information and credit card data could save users hours on their home PCs

If you have ever sighed with irritation at the prospect of supplying your personal details to a web site for the umpteenth time in a month, Bill Gross of IdeaLab has a product for you.

IdeaLab is a company in Los Angeles that acts as an "incubator" for new electronic commerce ventures, providing finance, infrastructure and expertise for start-ups in return for fees and a slice of equity. Familiar names from IdeaLab already mentioned in this column include *WeddingChannel.com*, eToys, IdeaMarket and *GoTo.com*.

Some of the company's ventures come from entrepreneurs who bring in ideas. The latest is one generated by Mr Gross himself. Called eWallet, it is wondrously simple. Mr Gross's idea is a piece of software sitting on the PC where you keep personal and credit card data, which can be released to a web site in a single point-and-drag operation – saving you the trouble of entering the same data hundreds of times.

The software, freely available at *www.ewallet.com*, took me five minutes to download, five seconds to install, and another four minutes to set up. When powered up, it shows a window that looks like the front of a leather wallet.

To run it, you need only type your name and a password. The wallet then opens, revealing on the left hand side a set of "pockets" containing Visa and Master cards, plus a "card" for your personal data. On the right side, the wallet contains a set of shopping "buttons" that take you in a single click to a number of prominent merchants.

Now comes the clever bit. Next time a web site asks you for information, you power up eWallet and simply drag an icon from the eWallet window over to the web page. This will then automatically enter the appropriate details (card, personal or both) into the web site's registration form, leaving you to make the final decision whether to click the submit button and send the information.

The package works entirely on the client side – on your PC. Rather than sending anything over the Web, or giving information to an eWallet server, the software contains a set of mappings that guess what fields are required on the web site, and ensures that the appropriate information from your wallet is delivered. The result is that entering the data once may save you from typing it hundreds of times.

eWallet requires no programming from merchants. The company's technical team has already visited the 200 most popular e-commerce sites (accounting, they believe for 90 per cent of online sales) and made sure that the software works correctly with their web forms.

For smaller merchants, a free software tool will be introduced in 1999 that allows them to make their registration forms eWallet compliant.

I had expected the company to offer the software free, but to charge web site and e-commerce merchants a fee each time it is used to provide them with a new customer's information. That is not the strategy outlined by Francis Costello, 30, a former McKinsey consultant and Harvard MBA who is eWallet's chief operating officer. Although Mr Costello fudges the question with a "no plans at present" formula, it sounds as though the plan is to make money only from selling promotions inside the wallet to business partners.

"It's about putting something on the desktop that people use when they go shopping; creating a valuable piece of real estate," he explains.

The secret is that eWallet contains an "update" function, by which it periodically checks for an internet connection, phones home and then downloads special offers and promotions.

These may be deals on products and services sold online, or on credit cards. The package also has links to search engines, so eWallet could make referral fees from portals, too.

Mr Gross had the idea in April, and the product was ready for launch the day before Thanksgiving: November 25. Since then, Mr Costello says the package has been downloaded 250,000 times. Mr Gross had hoped for 1m downloads in 1998, but the figure is still respectable.

According to Mr Costello, eWallet has spent $1m on development and running costs, plus another $1m on a radio and online marketing campaign to encourage downloads.

Mr Costello explains that eWallet users' high propensity to buy makes each customer very valuable. Although it is too early to tell, he expects each download to be worth between $10 and $200 to the company.

Gearing up for growth, the company has opened offices in San Diego, is increasing staff from 20 to 25, and is planning joint marketing deals with merchants.

I have only one concern about the business model. By comparison with other software, it suffers from a small problem. Because many content sites have given up asking for registration information, most users will start out expecting to pull out the wallet only when they make a first purchase with a new merchant; something that happens less often than one might think, particularly as customers become used to dealing with a small number of trusted merchants.

The company may find that the number of times each month users look at their eWallets is an important factor in its value. If the number cannot be raised quickly, the business may turn out to be less attractive than it first appears.

tim.jackson@pobox.com

Lucy Kellaway returns next week.

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BUSINESS TRAVEL THE COST OF FLYING

The highs and lows of air fares

The introduction of the euro will increase airline price transparency and reveal anomalies, writes **Gillian Upton**

The arrival of the euro will reveal the significant differences in the fares European airlines charge their customers for flying the same route. But there is little chance that increased price transparency will force down air fares this year because demand from business travellers is so strong.

The anomalies originate from before airline deregulation in 1993 when the International Air Transport Association, in which airlines negotiate fare structures, set all air fares. The five or six published fares that existed then were set in currency units which equated with the dollar. Discrepancies arose, but only some of them were corrected.

Over the past five years airlines have been able to set their own fare levels, responding to supply and demand and the presence or not of a low-cost carrier. Today, there are as many as 40 fare levels on any route.

Airlines adjust their fares according to the time of day, demand for seats, time of year and relative strength or otherwise of exchange rates. This maximises the airline's revenues but penalises customers who want to fly a popular route or travel at a busy time, and even for flying into a country whose currency is stronger than their own.

The recent competition from low-cost airlines has helped bring down air fares but discrepancies have been shielded within Europe by different exchange rates. The euro should reveal these differences because, with a few exceptions, there will be the same currency at both ends of the route.

"We know there are price anomalies and they will be something to bargain with the airlines," says Ray Wooldridge, the manager who purchases business travel for British Aerospace Defence Systems, a division of British Aerospace. "The airlines are not giving us any promises and in the short term there are going to be no gains at all."

Here is an example. It costs L330,000 (£119) for a business traveller to fly economy class on Alitalia from Milan to London City airport, but L299,000 (£108) for the same executive to return from London City to Milan. Alitalia explains that the 8am flight from Milan, which gets to London at 9am, is very popular because it allows a full day's work. But the inbound flight from London leaves at 9.30am, reaching Milan at noon. Half the working day has gone. To stimulate sales out of London, Alitalia offers seats at lower prices.

There are much larger differences, usually offered by a national airline outside its home base and always by foreign airlines. A British business person wanting to go to New York would be more than £700 better off flying Concorde on Air France via Paris than flying from London with British Airways, the home carrier. The Air France London-Paris-New York air fare is £4,984 compared with the BA direct flight fare of £5,706. BA's higher price reflects the greater demand in London than in Paris for flights to New York on Concorde.

Travellers will obviously weigh up the extra travelling time involved against the saving. For the chairman of a multinational it might not be a persuasive argument, but for a small- to medium-sized company a £722 saving is significant.

'The introduction of the euro will make business travellers aware of how much money airlines are making out of them'

"People do not mind changing planes," claims David Robinson, general manager of Airline Network, which sells discounted business-class air fares. "It may add an hour and a half to their journey but it may save them £1,500. If you're flying that route 10 times a year you can't say no to a saving of £15,000."

Half the 750-strong UK membership of the Institute of Travel Management are big travel purchasers and its chairman, Loraine Holdcroft, is looking carefully at European air fares. "There are a lot of price differentials currently being excused by exchange rates and we'll take action if necessary."

However, the introduction of the euro will not put the airlines under any obligation to lower fares and because of the strong demand from business travellers, they are obviously not inclined to do so. The Association of European Airlines (AEA) says it is not an issue for its member airlines, despite knowing "there are significant price anomalies".

The AEA's complacency is echoed by leading European airlines. "We will have to react to [the effects of the euro] and what the competition is doing and the potential loss if we lower the air fare," says Margit Napier, a manager for Lufthansa's biggest global corporate accounts.

KLM believes there will be downward pressure on pricing, "but whether we accede to it or not is another matter", says Peter Cornwall, director of sales.

A few airlines have been taking action before the euro's introduction. Aer Lingus's spokesperson Declan Conroy says the airline has made small price adjustments over the past 18 months "to move towards an equalisation, particularly on one-way and business-class fares".

A recent Paribas study on aviation and the euro gives no hope to consumers of lower air fares. It concluded that "air fares will remain completely dominated by route-specific demand factors for one flight or one day at one specific time of the day".

Although the euro will not help reduce air fares in the short term, it will make business travellers aware of how much money airlines are making out of them. They can only hope that companies with a lot of purchasing muscle will put pressure on airlines to smooth out price variations.

TRAVEL UPDATE

Change in airline ticket pricing prompts warning

Watch out for sneaky fare increases as airlines prepare to change the way they show ticket prices, warns *Britain's Guild of* Business Travel Agents. Its suspicions have been aroused by a Civil Aviation Authority decision to allow carriers flying from the UK to separate the passenger service charge, which covers airport extras such as security, policing and the provision of flight information. The change is expected to come into effect early this year. The guild is advising members to add the separated elements to ensure they do not exceed the previous equivalent fare. It is also recommending that all business travellers do the same. "We cannot understand why the CAA is allowing a quite normal cost of doing business to be shown *separately as though it is a tax*," says Don Lunn, chairman of the guild's air working party. "With the government's APD [Air Passenger Duty] already on the tickets, this is just a way of adding to the complexities of air travel pricing."

Marco Polo opens hotel in Davao

The Marco Polo group, based in *Hong Kong*, has opened a hotel in Davao, the fastest growing city in the Philippines and main economic centre on the southern island of Mindanao. This is what is known as a "soft opening", so only half the 245 rooms and suites are ready for use, but the outdoor swimming pool is available and most of the restaurants are functioning. Everything should be open by March, according to the company – including two executive floors. The hotel is in Davao's business district, which is some 15 minutes from the airport.

Other facilities, which are either open or close to completion, include a 24-hour business centre, meeting rooms with state-of-the-art audio visual equipment, and a gym. Guests staying at the hotel are being offered 50 per cent off published rates until the end of June.

Hotels to make 'recession' offers

British hoteliers will offer value added packages rather than discounts to tempt business customers if the UK slides into recession, predicts London-based BDO Hospitality Consulting. These could include bed, breakfast, dinner and a bottle of wine thrown in at a guaranteed price, making it easier for corporate buyers to control travel budgets. Jonathan Langston, joint managing director, says: "I think hotels are in better condition to take this approach than they were during the last recession. Then there had been such huge demand that they suffered a hard landing. Now they are already offering better value for money and will be seeking to take pre-emptive action rather than get into a spiral of discounting, from which it is so difficult to recover." Is the industry seeing signs of a downturn? Business guests are cutting short their stays, he says, "but are still not haggling over prices at the desk".

BA to issue Go flight vouchers

Business travellers paying full fares with British Airways' low-cost subsidiary Go will receive vouchers worth £40 towards the price of subsequent flights with the airline. The deal is available to customers travelling from today until February 10, and the vouchers, which are transferable, can be used on any flight taken by March 25. Launched last spring, the carrier operates from London Stansted to Rome, Milan, Bologna, Venice, Copenhagen, Munich, Lisbon and Edinburgh.

Passage to India

Travellers to India may soon be able to get visas on arrival. Reports suggest the Indian government is considering the move as a way of attracting more tourists. With 1999 designated "Visit India Year", travel companies hope the change will take place by the spring.

Roger Bray

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BUSINESS EDUCATION WHARTON DIRECT

Lessons at long range could hit the target

Wharton's distance learning experiment is being watched closely, writes **John Authers**

Every Wednesday evening for six weeks late last year, a group of young executives gathered in a small lecture room near Grand Central station in Manhattan. The room bears a passing resemblance to the bridge of the USS Enterprise, and they sat in comfortable swivel chairs with a computer console at each desk. For three hours at a time, they battled with the most demanding concepts a business professor threw at them.

The sessions were intense, with the professor frequently stopping to call for contributions from individuals. Sometimes he asked for a show of hands on some contentious issues. At others the students broke out to discuss a case, illustrating points with a squeaky pen on a board.

They whispered to each other, and took away assignments, knowing that they could check them on the web for the rest of the week.

What was unusual about the scene – apart from the quality of the technology and the lecture room – was that it was repeated simultaneously in 29 cities across the US. Despite the intense business school air, 260 students took each class at once.

The professor, who appeared on a large screen, is a member of the faculty at the University of Pennsylvania's Wharton school.

The scheme is called Wharton Direct, and it is an ambitious attempt to offer a full Wharton executive education to a mass audience, without watering down quality or damaging the school's brand.

The project is a joint venture with Caliber Learning, a company which spun off in 1997 from Sylvan Learning Systems, a large private-sector education provider. It is now testing the potential of applying "distance learning" – usually taken to mean correspondence courses or education offered over the internet – to high-grade business education.

Wharton Direct's potential significance for executive education in the US is immense, and the rest of the business school sector is watching closely.

There is vast potential demand for executive education to be packaged so that it can fit into a busy career, but it has so far been dominated by the business schools of state universities, and the private sector profit-making chains run by companies such as Apollo and DeVry – not the bigger international names.

According to Dave Wilson, head of the Graduate Management Admissions Council: "Wharton Direct has really turned up the heat. What you are seeing with Wharton and Caliber is a natural alliance. Now all of these students can have Wharton interacting with them. I think others are going to follow with something like it, but I think they are prepared to let Wharton try this one out by themselves."

One of the key advantages of the service, he points out, is that it allows executives to keep up with the course even if they are moving around the country – an advantage that conventional universities cannot match. Until now, the only way to compete with the private-sector chains has been to try to form large alliances of universities in different regions, an exercise fraught with academic politics.

The division of responsibilities between Wharton and Caliber is clear-cut. Wharton is responsible for all academic content, providing professors and setting the curriculum. Caliber provides all the infrastructure to make the project work, including the networks, the software and the lecture halls.

Caliber has made a big investment in developing infrastructure for distance learning, installing well-equipped lecture rooms throughout the US, and developing software which allows for much more interactivity than is possible over the web.

This requires human back-up. Each professor, sitting in a room in Philadelphia, is surrounded by a group of eight teaching assistants – mostly drawn from the ranks of graduate students or junior researchers.

As participants around the country ask questions, by sending a typed message, the assistants can either answer them directly, or pass them on to the professor, who may answer them "live" for the rest of the nation.

Professors can watch each classroom on a screen and can put a class on the spot with an unexpected question

Each classroom around the country has the backing of another facilitator, armed with a headset and mouthpiece.

Professors are working hard on translating their style to the new medium. They can watch each classroom on a screen, and – following cues offered by facilitators – can suddenly put an individual classroom on the spot with an unexpected question: "Say, how's all this sound to you at the moment, Minneapolis?"

Minneapolis suddenly appears on screens around the country. A student, taken off guard, says: "Er, it's pretty unrealistic."

The banter continues, with the aid of graphics on a board, and with exhibits that appear on the screens at students' desks. Students can access all the transcripts from each three-hour session on a secure web site for the rest of the week.

At the end of the course, business plans they have drawn up over the six weeks can be physically submitted to Wharton professors for evaluation.

In New York, students seemed to enjoy themselves, commenting that the array of methods at their fingertips to help them participate and interact with professors actually encouraged them to become more involved than they did in real classes.

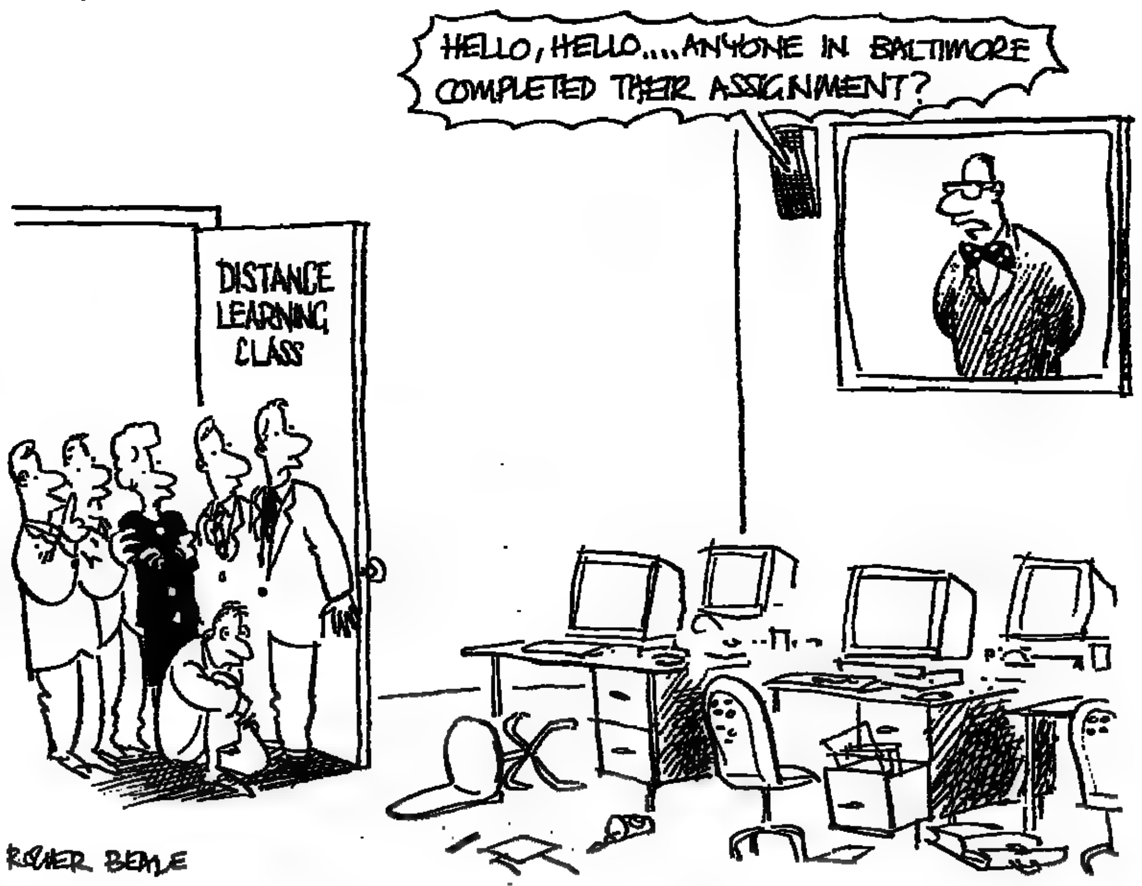
Initially the courses are firmly in the mainstream of concerns for middle-ranking executives, covering subjects such as understanding financial statements, making a business case, leadership and negotiation skills.

Each lasts six weeks, so that students are not asked to make too big a commitment to the new medium (or pay too much money).

The economics for Wharton and Caliber are clear-cut. If enough students warm to the Wharton Direct style of learning, they will be able to sell far more courses, at only a slightly reduced price for each participant, at little extra cost to the institution. This is potentially lucrative for them.

One case study students worked on last year set the perfect example. It looked at how Johnson & Johnson revamped the contact lens industry by shifting to disposable lenses. This way, the Wharton professor explained, customers found them more convenient. They paid less for each unit, but they bought far more units, making the whole business much more profitable for the company.

Wharton Direct is an attempt to apply that lesson.



NEWS FROM CAMPUS

New Zealand university means business

Business programmes for Maoris are on the agenda of the newly appointed assistant vice-chancellor of the commerce division at the University of Otago, in New Zealand.

David Busson, who will take up his position in February 1999, hopes to build the division into a leading business school.

The priority for Prof Busson will be to appoint a board of senior business leaders who can advise the division.

Other goals include outreach programmes for greater involvement in the local community, cross-divisional academic programmes and the formation of a community of Asia Pacific management schools.

University of Otago: New Zealand, 3 479 1100

Count on Yale for finance

Empirical corporate finance will be the next topic for discussion at the Yale School of Management's newly-created International Centre for Finance. The centre is under the directorship of finance professor William Goetzmann.

By autumn next year it should be housed in one of Yale's landmark mansions – which is now being restored – opposite the Yale president's house.

Yale SOM: US, 203 432 6006

Iese pattern emerging

Iese, the business school in Barcelona, has set up a centre for Emerging Market Studies (Cems) to provide business with information about emerging markets and, in particular, the possibilities for direct and indirect investment in these countries.

Last month Iese inaugurated a Centre for Latin American Business Studies, designed to help companies operating in Latin American markets. The centre has been formed by academics from Iese and its sister schools in Latin America and will conduct both research and teaching projects.

Babson initiatives

US business school Babson has announced three initiatives to reinforce its expertise in entrepreneurial leadership.

The first is the Frederic and Jane Hamilton $500,000 entrepreneurial scholarship programme which will provide scholarships to five students each year who enter the two-year MBA programme from an entrepreneurial background.

The second is the expansion of the business development hatchery to enable five student enterprises to operate rent-free for a semester.

And the third is a seed capital fund of $200,000 to finance businesses set up by recently-graduated students.

Babson: www.babson.edu

Edinburgh conference

The management school at the University of Edinburgh will host the European Foundation for Management Development conference to be held in June 1999.

The two-day conference will address the theme "Building new connections – preparing managers for a different world".

Edinburgh University: www.ed.ac.uk

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3050

MARKETING FUTURE CONSUMER TRENDS

Cashing in on a tailor-made world

Predicting which products are going to be in demand is big business, writes **Helen Jones**

Retirement homes for cats and dogs, snacks to combat depression, clothing with an in-built massage facility, and sleep machines to provoke intense dreams. These are some of the products and services 21st-century consumers can look forward to, according to futurologist Marian Salzman in her book, published today.*

Ms Salzman is head of the Brand Futures Group at advertising agency Young & Rubicam and travels the globe spotting consumer trends for clients which include Ford, Sony, PepsiCo and Citibank.

Her aim is to provide an "early warning system" for companies, keeping them up to date on consumer behaviour and identifying the way in which changing lifestyles could affect their brands in the future. New trends are identified through interviews with academics and scientists, as well as groups of consumers judged to be at the cutting edge of fashion.

"Marketers have always needed to understand consumers' current concerns and experiences with their brands. But if they are to thrive in the years ahead, they must anticipate where technology, social trends and myriad other change agents are leading, so that they will have a place in the consumer future," she says.

One of the most important emerging trends is that "mass marketing is becoming obsolete in high-tech cultures. As consumers we are being led to expect products that meet our specific needs – Levi's makes computerised-fit jeans to your exact measurements, for instance. And parents can buy personalised storybooks and videos for their children. Demand for these types of products will soar," she forecasts.

Entrepreneurial companies will find plenty of business opportunities if they target the increasingly ageing population, she says. By 2030, approximately 20 per cent of the US population will be over 65 and this group will influence everything from financial products to easy-to-open packaging.

"We will see great shifts in attitude regarding age. This group's power will increase, images of the elderly as victims will become historical, and they will increase their economic power as they move into their second half-century of life. Expect to see them driving top-of-the-range cars," she says.

Members-only parks which promise to keep out undesirables will spring up

Meanwhile, the "oldest olds" – those in their nineties and beyond – will be looked after at day-care centres, along with underfives and pets, while the economically active are at work.

Demand for food with added health benefits will also rise as the world's population ages. Ms Salzman says in the US a third of consumers regularly eat foods recommended for specific health conditions and half want food that can boost the immune system. Snacks which claim to influence mood are already on sale in the US and Asia. Personality Puffs, for example, contain a blend of plant extracts which includes St John's Wort and ginkgo biloba to fight depression and improve memory, while Kava Corn Chips claim to aid relaxation.

But it is not just the elderly who will demand new goods and services – parents will be a prime target for marketers with bright ideas. "Today's parents are faced with unique pressures – and conveniences – of raising children in the digital age.

"Expectations are high, resources are plentiful, but time is limited," Ms Salzman says. Anxious parents will not only feed their children "nutraceuticals" to make them healthier and more intelligent, they will also invest in anti-bacterial toys, educational products and organic cotton clothing.

Members-only parks, beaches and theme parks which promise to keep out undesirables will spring up in affluent areas, and trendy loft-living couples will call in teams of "baby proofers" to make their high-tech homes child-friendly.

Labour-saving gadgets and services will become vital as increasingly harried consumers have less time to shop, cook and clean for themselves.

"Intelligent refrigerators will track consumption, printing a shopping list on demand or transmitting it electronically to a home delivery service, smart cookers will know how you like your eggs, meal trucks will circle neighbourhoods at dinner time, offering complete meals, and you will get your personal shopper to pick out everything you need from clothing to food," says Ms Salzman.

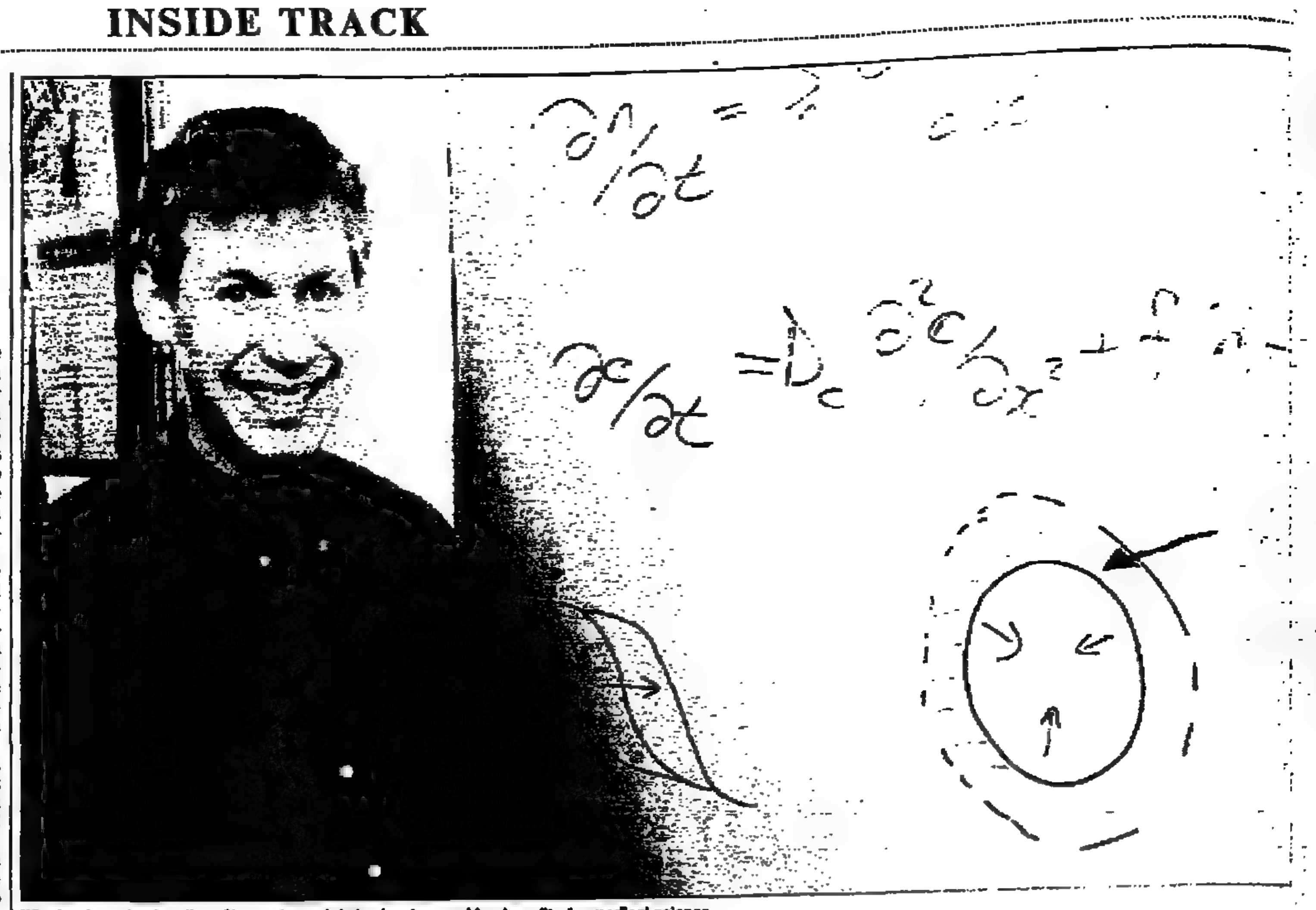
But she warns that for an emerging underclass of technological have-nots, the future looks bleak.

"The chasm between those who do and do not have access to new technologies (particularly the internet) will be far more significant than separations caused by age, geography, sex or lifestyle. Those who aren't wired will be blocked from an entire universe of information, communication and community," she says.

Science fiction? Possibly. But Ms Salzman points to her successes. "I spotted 'wiggers' – white kids who wanted to be black and who started a trend for ultrabaggy clothing – and I alerted clients to the fact that there would be a revival of 1970s fashions in the 1990s."

* *Next. A Vision of Our Lives in the Future by Marian Salzman and Ira Matathia, HarperCollins.*

Trend spotting: futurologist Marian Salzman



Winning formula: Jonathan Sherratt's work is having far-reaching benefits for medical science

SCIENCE MEDICINE

Scalpel, forceps . . . calculator

Simon Hadlington explains how mathematicians and clinicians are working together to shed new light on wound healing and the growth of cancerous tumours

Modern technology has given medical scientists unprecedented information about the innermost workings of the human body, including many of the thousands of biochemical and physiological processes that occur in tissues which are diseased or injured.

Such knowledge is vital in the search for new drugs and therapies. But the enormous complexity of biological systems can make it difficult to pinpoint which molecules and interactions are important and which are not. In this respect, medical science is in danger of drowning in a sea of data.

But help is at hand from an unlikely quarter: the mathematician. Over the past 30 years there have been significant advances in a field of mathematics called non-linear dynamics, which can make sense of highly complex systems in which many factors are interacting – precisely what is happening in living cells.

Jonathan Sherratt, professor of mathematics at Heriot-Watt University in Edinburgh, has been working with clinicians and scientists to shed new light on wound healing and the growth of cancerous tumours. Prof Sherratt has been collaborating with scientists at the Moorfields Eye Hospital in London to help identify the most important factors in the healing of wounds in the outer layer of the eye, the corneal epithelium.

"This is an ideal system for the application of mathematical modelling," he says. "Over the years scientists have gathered a large amount of quantitative data about the process, which we can now use. It is very important clinically because of the need for rapid repair following surgery or unintentional wounding."

In the healthy eye, there is a constant turnover of epithelial cells; old cells are washed away to be replaced by new ones that migrate inwards from the edges.

The process is regulated by a naturally produced chemical called epithelial growth factor, or EGF. After an injury to the epithelium, the concentrations of EGF increase markedly.

Working with mathematician Philip Maini, a professor at Oxford University, Prof Sherratt has devised equations that relate the rate at which new cells migrate and divide to the concentration of EGF. "In mathematical terms the advancing cells represent a wave front. You can derive equations to model the speed of the front's progress and how it is affected by external stimuli," he says.

The work has given important insights into how healing rates can be improved by the application of extra EGF to the wound.

"The formula we came up with has enabled us to make a clinically important prediction of the healing rate as a function of the addition of the growth factor," says Prof Sherratt.

Prof Sherratt has also been working with Mark Ferguson, a professor in Manchester University's School of Biological Sciences, to create mathematical models of the formation of scar tissue in skin.

When skin is wounded a blood clot forms which hardens to a scab. Beneath the scab is a makeshift protective layer of protein called fibrin. Cells termed fibroblasts migrate into the wound site from the surrounding tissue and break down the fibrin while at the same time manufacturing strands of collagen – the permanent scaffolding which gives skin its strength.

"In normal skin the collagen fibres are randomly oriented, whereas in scar tissue they are more or less aligned in the same direction," says Prof Sherratt. It is this alignment that gives scar tissue its distinctive appearance and is also responsible for its relative weakness.

By factoring in all the known parameters – the rate of migration of the fibroblasts, how fast they produce collagen, how quickly they degrade the fibrin, and so on – mathematicians have been able to devise equations to predict how an individual fibroblast moves in relation to its environment and in relation to the cells that surround it.

"By using one equation for each cell we can model the movement of about 1,000 cells. From this we can obtain a pattern of how the collagen fibres are aligned," says Prof Sherratt. Once the model has been verified by experiment the variables can then be altered to see what effect they have.

"From our models we discovered that one of the key aspects is the rate at which the surrounding fibroblasts migrate into the wound; the faster they move the greater the degree of collagen alignment. If this could be slowed down it might result in less alignment and a cosmetically and structurally better scar."

'We are confident we have a good mathematical model which is realistic in terms of what happens in the body'

Another of Prof Sherratt's collaborators is Abbey Perumpanani, of Harvard Medical School in the US. Dr Perumpanani, a physician who has a PhD in mathematics, is interested in the growth and spread of cancer. He believes that mathematics can be an invaluable tool in medical research.

"The explosion of experimental knowledge and the resulting accumulation of facts makes it difficult to identify which sets of interactions are truly crucial to the phenomenon we are studying," he says.

"Take for instance cancer. There are more than 1,000 described proteins which have been found to have some role in the spread of cancer in the body. This makes its study very confusing. By using a different approach, focusing on the mechanisms, we have been able to describe this somewhat complicated process using a set of six equations."

Dr Perumpanani's group has used mathematical modelling to demonstrate that two particular classes of anti-cancer drug if administered together would be synergistic – their effect would be greater than the sum of their parts. "We have been able to predict this without having to wait for the experimental method of trial and error."

Mark Chaplain, a mathematician at the University of Dundee in the UK, has been working with Michael Baum, professor of surgery at University College London, to develop new models of the growth and spread of solid tumours.

"We are confident that we have a very good mathematical model which is realistic in terms of what actually happens in the body," says Dr Chaplain. By manipulating the model, the mathematicians can predict what effect a change in a given variable – a growth factor, for example – might have on the tumour's development.

Professor Baum believes that the application of what he terms "new mathematics" to clinical oncology could result in a new approach to cancer and new, effective treatments. "I think this is absolutely revolutionary."

RALPH ATKINS
FILE FROM BONN

Having a non-word in your year

German politicians are being more careful about what they say as the use and abuse of the language comes under some generally light-hearted scrutiny

If Bonn's politicians have been a little more circumspect than usual in their choice of words recently there is a good reason. In the next few weeks an independent jury of linguistic experts, supervised by Horst Schlosser, professor of philology at Frankfurt University, will start selecting the official "non-word" of the year for the 12 months just ended.

The contest is an annual celebration of the worst abuses of the German language. It is a chance to cock-a-snook at politicians or businessmen and show a lighter side of the German establishment – even if the event is carefully organised by a formal committee dominated by academics. But it is also a testament to the malleability of the German language which, despite the word lengths, can show remarkable adaptability.

The "word of the year" 1998 has already been awarded. This is a separate contest organised by the Wiesbaden-based German language society which takes a slightly more positive approach than the "non-word" competition. Its aim is to document words which have particularly characterised a year. Top of the list for 1998 was "*Rot-Grün*" or "red-green" which describes the Social Democrat and Green coalition of Gerhard Schröder, the new chancellor. As the German language society says, "red-green" was used first by the previous Christian Democrat-led government as a warning. After September 27's election it became an emblem of success. Now it is used also as an adjective.

In second place was "Viagra", demonstrating the ease with which foreign words or even brand names are subsumed into the language. (Helmut Schmidt, the 80-year-old former chancellor, remarked there is "no Viagra against economic incompetence".)

Runners-up in the 1998 "word of the year" contest included "euroland" which now has its own currency; "the new centre" which Mr Schröder claims as his political creed; and "*piep piep piep*", the inane refrain of Guildo Horn, Germany's representative in the Eurovision song contest, which the judges declared "symptomatic" of 1998.

But the yet-to-be-chosen non-word of the year for 1998 will attract more attention. The contest shows a mischievous side of Germany. There is a sense of irony, or a self-deprecating bewilderment at the complexities German speakers inflict on themselves.

The "non-word" contest has extra frisson because of its capacity to put noses seriously out of joint. The 1997 winner was "*Wohlstandsmüll*", or literally, the "rubbish of affluence" used by Helmut Maucher, chairman of Nestlé, to describe social security scroungers who milked the system. The freshly-honed term was described by the judges as taking "to a new peak the cynical evaluation of people exclusively according to their market value".

Tensions erupted in spectacular fashion five years ago when the non-word of the year jury awarded second place to "*kollektiver Freizeitpark*" – or collective leisure park. It was a term used by Helmut Kohl, then chancellor, to describe an industrial society of ever shorter working hours and ever longer holidays – and ever lower competitiveness.

But Mr Kohl was not amused at having his rhetoric publicly honoured in such a manner and made his criticism plain to the language society which then organised the "non-word" contest.

A row erupted over the role of a state-funded institute in organising such a contest. Finally the competition was spun off to the independent committee under the supervision of Professor Schlosser. "We objected to the idea of censorship," he says.

The contest is run on fully democratic principles, with suggestions being made by the general public. As Professor Schlosser says: "Germans had bad experiences of government control of the language during the Nazi time and under the East German communists".

Which words of 1998 might be selected as the non-word of last year? There are numerous examples of over-grown words which have become part of the language. "*Steuerbemessungs-grundlage*", or tax base, has entered frequent usage (at least by politicians) during the recent debate over European tax harmonisation, but it would probably fail because it is not uniquely associated with the past 12 months.

Similarly, the ineptly named *Genehmigungs-verfahrens-beschleunigungsgesetz* (or law to speed up approvals processes) would be excluded because it was a legislative measure introduced by the previous Christian Democratic-led government and, therefore, not sufficiently current.

One suggestion, given the rough start experienced by the new government of Mr Schröder would be to name "red-green" as non-word as well as word of the year. A more serious contender may be "policy mix", the term used by Mr Schröder and Oskar Lafontaine, the finance minister, to describe an economic policy embracing both supply side and demand side measures – but (just possibly) is an excuse for a fudge.

Other ideas received by Professor Schlosser's committee include "*Gegenfinanzierung*" – or "counter financing". This is the practice – insisted on by Mr Lafontaine – of balancing tax cuts with revenue raising measures which, some would argue, renders their effect neutral.

Worse still is "*sozialverträglichen Frühableben*", or "socially accepted early death" which Karsten Vilmar, president of the German doctors association, warned could be the consequence of government curbs on health spending. Another proposal is "Seniorsitter", the term used to describe care for the elderly which, according to Professor Schlosser, suggests that looking after old people is comparable to baby sitting.

The dark horse is "euroland". Its chances would seem low given Germany's lust for European integration and its position as runner up in the word of the year contest. But given the reluctance of ordinary Germans to give up the D-Mark, its adoption as non-word of the year, 1998, would really be an act of defiance.

هكذا من الاصل

THE ARTS

OPENINGS

BRUSSELS
Peter Brook's production of *Don Giovanni*, first seen at last summer's Aix-en-Provence festival, comes to the Monnaie on Thursday, with Daniel Harding once again on the podium. As at Aix there are two casts, including Peter Mattei as Giovanni and Melanie Diener as Donna Elvira.

STRATFORD-UPON-AVON
The Royal Shakespeare Company starts the New Year with a new production of *The Winter's Tale*, opening on Wednesday at the Royal Shakespeare Theatre. Gregory Doran directs, with Antony Sher starring as Leontes and Alexandra Gilbreath as Hermione (right).

NEW YORK
Among the most remarkable achievements of George Balanchine, the greatest 20th-century choreographer, is that he put many ballets on without scenery, simply against a blue backdrop (the sky) and in the simplest dance kit (leotards, tights, skirts) all in black and white. These include such Stravinsky masterpieces as *Agon* and *Symphony In Three Movements*; also the overwhelming Hindemith *The Four Temperaments*. As part of its 50th-anniversary celebrations, New York City Ballet (directed by Balanchine until his death in 1983) presents, from Tuesday, his *Black and White* repertory.

MINNEAPOLIS
Christopher Rouse's latest work is a song cycle for soprano, entitled *Kabir Padavali*. It will be premiered on Wednesday by Dawn Upshaw, with the Minnesota Orchestra conducted by David Zinman. There are further performances on Friday and Saturday.

PARIS
The Chamber Orchestra of Europe begins the year with visits to Paris, Cologne and Berlin under the direction of Myung-Whun Chung. The first of four Paris concerts, on Wednesday, is a chamber music evening at the Cité de la Musique.

Cecilia Bartoli stars in a concert performance of Handel's *Rinaldo* at the Théâtre des Champs-Elysées on Wednesday. It is repeated at the Concertgebouw in Amsterdam on Sunday, and in Birmingham and Vienna next week. Christopher Hogwood conducts the Academy of Ancient Music.

LONDON
This year sees the centenary of Noel Coward's birth. Celebrations start at the King's Head, Islington, with his daring late play, *A Song at Twilight* - daring because its subject is "outing" and its protagonist (played here by Corin Redgrave) bears strong resemblance to Coward himself (who played the role at its premiere).

ROME
The Accademia Nazionale di Santa Cecilia starts the year with concert performances of Leonard Bernstein's opera *Candide* on Thursday, Saturday and Sunday at the Auditorio Pio. Jeffrey Tate conducts a cast that is headed by June Anderson, Jerry Hadley, Kurt Ollmann and Felicity Palmer.

LAS PALMAS
Carlos Kleiber, widely regarded as the world's greatest living conductor (left), comes out of self-imposed hibernation this week for two concerts in the Canary Islands. The first is in Las Palmas on Thursday and the second at Santa Cruz on Saturday. Kleiber, 68, will conduct the Bavarian Radio Symphony Orchestra in a programme expected to include Beethoven's Seventh Symphony. These two concerts represent his first public engagements for two years.

Life in the fast lane: before his premature death Fassbinder (left) managed to cram in nearly 50 films, including 'Lili Marleen' starring Hanna Schygulla (right) — The Kobal Collection

Director who made up for lost time in advance

Nigel Andrews welcomes the National Film Theatre's retrospective of Rainer Werner Fassbinder's dazzling work

Stephen Spender once bardically mused: "I think continually of those who were truly great." So do film critics. Sometimes we do it to call up invidious comparisons with the non-great: there is nothing like crying *"Où sont les Renoirs d'antan?"* when faced with *les Renoirs* (or substitutes) *d'aujourd'hui*. At other times we do it to bask in the miracle, present or remembered, of what *cinema can do*.

Fassbinder musings come in both categories and the National Film Theatre's full-scale retrospective devoted to this extraordinary German filmmaker, launched last week, gives the fan ample scope. It should make new fans too. Fassbinder died so young that today's teenagers were scarcely born when the *wunderkind* burned out after a life famously fuelled by drugs, drink and promiscuous bisexuality.

The 36-year-old had made up in advance for lost time. His best-known movies, including *The Bitter Tears Of Petra Von Kant*, *Fear Eats The Soul*, *The Marriage Of Maria Braun* and *Querelle*, were the tip of a large, mind-crunching iceberg. He made nearly 50 films, sometimes four in a year, and the good ones were dazzling. They rewrote movie melodrama, giving it a social-critical edge, a style poised between *faux-naif* and *farouche* – only French words seem adequate to sum up this German director – and a searing intelligence in creating tension between filmic and theatrical conventions.

It wasn't enough to call Fassbinder a German Warhol, as some did, or a pop-art primitive bemused by his own talent. He *was totally self-aware. He* conceived, wrote, planned, directed and often acted in his own films, a one-man, walking *gesamkunstwerk*.

As with any prolific artist, bad works swilled about among the good. Few want to remember, though this month and next they can re-experience, his daffy take on American southern Gothic, *Whity*; or the tiresome puzzle-picture *Chinese Roulette*; or the incoherently autobiographical *Year Of Thirteen Moons*, with its transvestite hero working out Fassbinder's grief after the death of a longtime male lover.

That was the only time I met the director, though I never forgot it. I witnessed a movie in the making and a movie career almost in the un-making. During the day of filming I attended, Fassbinder didn't appear until lunchtime. An actor and the cameraman did the morning shoot. (So much for auteurism when the auteur isn't functioning.)

When the bleary director finally rolled into view he looked as if he needed eight black coffees. He encountered instead his mother. She read the riot act. Fassbinder sheepishly took it in. Then when Mutti moved away, I made the mistake of approaching him myself, to ask if I could sit in on the filming and later talk to him. He answered with silence, plus a look of glazed, hostile indifference as if I was something interrupting his view.

> **He made movies about whores, pimps, drug addicts, crooks, homosexuals and lesbians. He didn't tell us to love them or hate them. He just brought them ineradicably to life**

Abandoning RWF, I spent the day taking the star Volker Spengler – a traffic-stopping vision in lipstick and high heels – for between-takes ice-creams. I had clearly picked the wrong movie occasion. The right movies, I consoled myself, are better experienced straight from the screen. Fassbinder's cinema was, and still is, astonishingly fresh. His love of lower-depths subjects was never sentimental or preachy. He made movies about whores, pimps, drug addicts, crooks, down-on-their-luck homosexuals, rich self-lacerating lesbians. He didn't tell us to love them or to hate them. He just brought them ineradicably to life.

He knew what made a great image. *Fear Eats The Soul*, about the love leading to social ostracism between a young African worker and a German woman old enough to be his grandmother, had an unforgettable scene in a Munich outdoor café where the bright orange chairs and tables in the green park had an Henri Rousseau vividness. The mixture of *gemütlichkeit* – German cosiness – and jungle colours perfectly suited Fassbinder's satirical pointing of society's attitude to this oddly matched but honest-as-nature black/white romance.

I thought he had designed this scene. But a year or two later I passed by the actual Munich café. The chairs and tables *were* bright orange: the place did look like a Rousseau painting. Fassbinder had simply, like a great photographer, noticed and chosen the right reality.

He could also stylise when he wanted. *The Bitter Tears Of Petra Von Kant* is an artfully "stagey" movie about stagey people, two high-theatrical lesbians playing out their agony against a giant emblematic wall-hanging. Likewise, *Querelle* enacts a Jean Genet story in a painted set aglow with expressionism, while *Effi Briest* is a deliberate, literary movie of the Fontanne novel, postmodernly wrapping its story in voiceover narrative and living-tableau *mise en scène*.

That Fassbinder's best films all ended up real, regardless of their artifices, was the marvel. Like nearly every great director, at least outside Hollywood, he used the same players over and over. Hanna Schygulla, Armin Mueller-Stahl, Margit Carstensen, Irm Hermann, himself... He probed their personae to the point where the masks cracked, where the inner personality shed its essence and luminescence over the screen.

With the performances too, though, he introduced art whenever nature was not quite enough. The nakedness and seeming simplicity of the performances gave Fassbinder freedom to play with mischievous, enriching obliquities. In *The Merchant Of Four Seasons*, his first masterwork, he keeps handing his characters social masks. In a film about hypocrisy they stand about like human still-lifes, sphinx-like and decoratively defiant. We know them so well, however, not least through the layered ironies of Fassbinder's storytelling and dialogue, that the very stiffness *of their gestures becomes funny*, quirky, revealing, like a semaphore of the damned.

Other film-makers, including gay ones, have followed the Fassbinder route to a cinema combining realism, primitivism and highly wrought social ballet. In America Mark Rappoport, Hal Hartley and Todd Haynes (*Safe*, *Velvet Goldmine*) all delight in po-faced or *faux-naif* storytelling laced with renegade stylisations. In Spain, Pedro Almodovar has for years been a one-man Fassbinder tradition. And the outing of social hypocrisy and moral intolerance in films by directors as diverse (but also as latently "camp") as Lars Von Trier and Mike Leigh owes much to Fassbinder. The National Film Theatre season is a priceless chance to meet a film-maker who is himself, the passing years confirm, beyond price.

OPERA

Take your pick of Carmens

Opera North's new *Carmen* in Leeds, West Yorkshire, is a flawed but interesting effort. Is *Carmen* a sophisticated opéra-comique, a gritty drama of every-day low-life, or a brilliant theatrical evening of famous tunes? Phyllida Lloyd, Opera North's producer, has done her best to pack all three into one evening.

To judge from the programme it is the gritty drama that interests Lloyd most. Fortunately, she resists using the pop music analogy to turn Carmen into Gypsy Spice, but the opera is updated, employing Keith and Emma Warner's recent translation.

Instead of Bizet's quaint band of gypsies we get some very nasty drug smugglers, who have learned their stage manners from the Quentin Tarantino book of etiquette. Zuniga is murdered within seconds of uttering his last line, Don José has his forehead cut with a knife, and even a child gets knocked about. No wonder Micaela, a decent suburban girl, sung with a tremulous fast vibrato by Susannah Glanville, feels so out of place.

Carmen the slick stage musical turns up for some of the big set-pieces. The Toreador's Song is pure Bizet goes to Broadway. Mark Stone gamely jumps on and off tables, rips open his shirt and gyrates his hips while somehow singing the piece with conscientious musical values.

After all this one might expect Carmen and Don José to go at their roles hammer and tongs, but this is where *Carmen*, the subtler French opéra-comique, comes in. Antoni Garfield Henry, the Don José, has a relatively light voice for the role, but he *plays the part with sensitivity*. His Carmen also has fresh ideas, from a nicely underplayed first entrance to a final scene where she goes down fighting. With more experience, the young American mezzo Ruby Philogene will be just right for the role.

Andras Ligeti conducts Bizet's music with a mixture of dogma and theatrical good sense. This is a schizophrenic *Carmen* – I still don't know why the entire opera is set in a disused gasometer – but by the end it succeeds in drawing its ideas together. Carmen and Don José are vulnerable young people caught up in a world of violence, and very moving their fate is, too.

Richard Fairman

Sponsored by PricewaterhouseCoopers and Lionheart

INTERNATIONAL Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Festival of Lithography: celebration of the 200th anniversary of the discovery of lithography. The exhibition consists of works from the collection, including lithographs by Toulouse-Lautrec, works by Cézanne, Manet, and Dutch artists including Van Gogh; to Jan 10

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Mary Cassatt: Modern Woman. 225 paintings, drawings and prints by the only American invited to exhibit in the Impressionist exhibitions in Paris; to Jan 10

COLOGNE

OPERA
Oper der Stadt
Tel: 49-221-221 8240
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 8

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Joan Miró: major retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-624 6200
Turner Watercolours: shown every January for 90 years, this magnificent selection of 38 watercolours was bequeathed by Victorian collector Henry Vaughan in 1900; to Jan 31

HAMBURG

EXHIBITION
Kunsthalle
Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to Jan 10

HOUSTON

EXHIBITION
Museum of Fine Arts, Houston
Tel: 1-713-639 7750
www.mfah.org
A Grand Design: The Art of the Victoria and Albert Museum. *North American tour of selected* objects from the V&A's collection. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood, presented in sections which address changes in the institution's collecting policy; to Jan 10

LONDON

EXHIBITION
Victoria and Albert Museum
Tel: 44-171-938 8500
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition, which arrives in London after touring in Japan, marks the centenary of Beardsley's tragically early death, aged 25; to Jan 10

THEATRE
Albery
Tel: 44-171-876 1115
Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy moves from the Almeida Theatre to the West End. Comic duo Sean Foley and Hamish McColl play the title roles; Jan 4, 5, 6, 7, 8, 9

National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre; Jan 4, 8, 9, 11

NEW YORK

EXHIBITIONS
Guggenheim Museum SoHo
Tel: 1-212-423 3500
www.guggenheim.org
Premises: Invested Spaces in Visual Arts, Architecture & Design from France, 1958-1998. Exploration of the different ways in which artists have engaged with space. Display ranges across installation, film, video, photography and architecture. Includes works by Le Corbusier and Louise Bourgeois; to Jan 10

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 9th to the 16th century. Includes rare brocades and carpets; to Jan 10

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th century, some of which have never before been exhibited outside Russia. Includes works by Rembrandt and Dürer, with particular emphasis on the modernists Matisse and Picasso; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. *Revival conducted by Patrick* Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Jan 6, 9

PARIS

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
● Gustave Moreau: more than 140 works by the Symbolist painter, held in high esteem by his literary contemporaries. Includes studies and drawings as well as oils, many of them depictions of historical and mythical subjects; to Jan 4
● Lorenzo Lotto: Rediscovered Master of the Renaissance. 50 paintings, many of them on loan from churches and museums in Italy; to Jan 11

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Portraits from Roman Egypt: touring exhibition of mummy portraits from the British Museum. Painted on wooden panels, linen shrouds and plaster masks, they were created during the first three centuries of Roman rule in Egypt; to Jan 4

PRAGUE

DANCE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Nutcracker: by Tchaikovsky, in a staging by Russian choreographer Jurij Grigorovic, with sets and costumes by Simon Virsaladze; Jan 5

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 11

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Up to the bare bones: Human remains in museums. The first to address this phenomenon directly, this exhibition presents exhibits from medical, sacral, ethnographical and archaeological collections; to Jan 10

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
● New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Shostakovich; Jan 10
● New York Philharmonic: conducted by Kurt Masur in works by R. Strauss and Tchaikovsky; Jan 11

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted here by Heinz Fricke; Eisenhower Theater; Jan 7, 9, 11

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

PHILIP STEPHENS

Conspicuous absence

Britain must assess the economic costs and benefits of joining the euro against the political price of staying out

The event is no less momentous for the anticipation. Instead, the reality of the euro reminds us of the immense scale of the endeavour. It remakes the economic and the political contours of the European continent. In so doing, this unique enterprise presents Britain with a dilemma as acute as any that the nation has faced during a long post-war struggle to extricate its future from its past.

It's a pity that Gordon Brown did not attend last week's christening in Brussels. But Britain's chancellor is a proud man, uncomfortable in the role of onlooker. Perhaps he would have been teased by Dominique Strauss-Kahn, France's mischievous finance minister. And he certainly would have been vexed by Oskar Lafontaine's restatement of German ambitions to add economic to monetary union.

Mr Brown should have put aside his pride. The sight of a diplomat taking the chancellor's place in the British chair served as an awkward reminder of another missed beginning. It recalled the decision of Anthony Eden's government to despatch an official rather than a minister to the Messina conference where Britain's partners were making Europe's future. Hard to believe now that Rab Butler, an otherwise intelligent chancellor, dismissed this seminal event as an irrelevant "archaeological excavation" in some small Sicilian town.

Now as then the choice for Britain is huge and inescapable. Mr Blair knows it. His studied public reticence on the subject of Britain's participation cannot conceal the irrepressible logic of his broader approach to Europe. He has decided that Britain must be a player on that continent. He cannot kid himself that is possible outside the euro.

So it is when not if. As one prime ministerial aide said yesterday, the government has declared its support in principle. Within the next few weeks it will publish what it has called a national changeover plan. Here the Treasury will spell out the nuts and bolts of swapping pounds for euros. Money may be allocated to adapt Whitehall's computers.

It is not enough. The pressure of events demands of Mr Blair a more explicit timeframe. Will it be the three years that the changeover plan postulates as the shortest practicable? Five years? Maybe 10? We learned from Messina that it makes a crucial difference. How long might it be before France is led again by a government which, like De Gaulle's, seeks to prolong the discomfort of a Britain on the outside looking in?

Just as important as the when is the how. Mr Blair's position is that the government will prepare and then decide. That decision will be taken in something called the national economic interest. To that end Mr Brown has enunciated five economic "tests".

This is the politics of convenience. Mr Brown's tests are a flimsily-drawn charade. The Treasury can declare them met or otherwise more or less whenever it chooses. Ambiguity was always the name of this particular game. Of course, there may well be a good time and a bad time to merge Britain's monetary policy with that of the euro-11. Any sensible government would keep an eye on the cycle. But for all the spurious certainty of those who claim economics as their profession, this enterprise precludes a definitive judgment.

We can speculate now that replacing the divine right of kings with that of central bankers will impose a permanent deflationary bias to Europe's economies. Or we can suppose that Wim Duisenberg, president of the European Central Bank, and his colleagues are smart enough to understand that the ECB's authority rests ultimately on the consent of the people. Pessimists can tell us that a one-size-fits-all monetary policy is a recipe for permanent slump in Europe's more depressed regions. Optimists will retort that the new pressures for structural reform in product and labour markets promise a permanent addition to competitiveness and growth.

The truth is it will be a decade at least before we know in any serious sense whether the euro is a success. And even then the assessment will depend heavily on a guestimate of what otherwise might have been. As for Britain, any balance sheet of the economic costs and benefits of joining has to be weighed against the unquantifiable risks of staying out.

So what is demanded of Mr Blair is a leap of faith. It would be the same if he chose to stay out. Those who hold an independent monetary policy to be indispensible to economic success conveniently forget the havoc wrought by sterling during the post-war decades. What would the pound buy in Germany in 1960? More than four times as much as it would now.

The politics and the economics are indivisible. There will be no magic moment when the time is right. Mr Blair has instead to invert his stated policy: to decide and then prepare. Perhaps he has already done so. But this demands an admission – open and honest – that in the broadest sense Messrs Strauss-Kahn and Lafontaine are right. The euro is a powerful impulse to further economic integration.

What is important politically is not this obvious fact but the nature of the closer cooperation which will follow. Those who cherish the sovereign's head on the currency predict the instant destruction of the nation state. But they uphold a (very recent) symbol of nationhood. England, Scotland and Wales were proud nations long before the monarch first appeared on the pound note in 1946.

No, the real argument is about the structure of integration. For the sceptics the word is synonymous with centralisation. A single currency requires a single state, a single state a single tax policy. Yet listen carefully and there is no more enthusiasm in Bonn and Paris than in London for that particular blueprint. What's being asked for in those capitals (and often sensibly so) is tighter policy co-ordination between governments.

When Mr Lafontaine speaks of harmonising taxes he is pursuing Germany's national interest. When Mr Strauss-Kahn calls for a bigger role for the Euro-11 council of finance ministers he is speaking for France. Both men recognise that the euro greatly increases their interdependency. Hence the pact to set the parameters of fiscal policy. Yet neither politician intends to sacrifice national to common interests. Quite the reverse. They want to shape the latter in a way which advances the former.

Here lies the essence of the European bargain which Mr Blair must re-explain and the British people must again confront. Like it or not, decisions taken on the European continent shape Britain's security and prosperity. Is the national interest best pursued at the centre or from the margins? To my mind this perennial question answers itself.

LETTERS TO THE EDITOR

Directors remain firmly opposed to the UK joining the euro

From Mr Tim Melville-Ross.

In the Financial Times on New Year's Eve, you commented once again on the business view of the euro ("Business and unions warn on euro delay") and gave the impression that the main business organisations are not only in favour of the UK joining the euro but also are asking for the government to set a membership date.

May I point out that this business organisation – which represents 47,000 directors in the UK – together with other organisations, such as the Federation of Small Businesses, is firmly opposed to the UK joining the euro for the foreseeable future.

There are powerful economic and political reasons for this position, which seldom receive an airing in the Financial Times.

Sir Clive Thompson, president of the Confederation of British Industry, has called for a more grown-up debate about the single currency, and this would be greatly facilitated if you were to present the arguments against the UK joining the single currency as regularly as you present the argument for.

And on the matter of setting a membership date, I suggest that this is a little difficult so far ahead of the referendum which will decide whether or not we join.

Tim Melville-Ross
director-general,
Institute of Directors,
116 Pall Mall,
London
SW1Y 5ED, UK

Under orders and euroff!

From Lord Cobbold.

Sir, On behalf of all those who believe in the future of the European continent and who marvel at the progress made over the past 50 years, may I, through your columns, offer a public welcome to the euro?

A currency union embracing 11 nations has never been tried before. It is not without risk.

But if successful, it offers immense opportunity and economic benefit to the peoples of Europe.

It could become a blueprint for other national groupings across the world.

The euro puts an end to competitive currency devaluation – a scourge that has been the cause of war.

The euro creates potentially the largest capital market in the world, encouraging investment and the creation of employment.

Welcome euro - euroff! Godspeed!

Lord Cobbold,
Knebworth House,
Hertfordshire
SG3 6PY, UK

Smaller companies at mercy of stiffer interest charges

From Mr Martin Simons.

Sir, David Blackwell's article ("Rethink on small companies urged", December 30) on KPMG's concern about a 10-year low in flotation of small companies is timely. The decline in Mittelstand companies in the UK is a partial consequence of relentless pressure on smaller suppliers by industrial and retail giants.

Under the guise of supply chain management, extended credit is syphoned from suppliers who consequently have emasculated profits and cash flows. Medium and smaller-sized companies are charged much stiffer interest rates than large groups.

The City should not countenance profitability expressed in terms of net operating assets which are reduced by delayed payment. And calculation of asset gearing without regard to the level of trade is foolish.

The Bank of England should use its influence to ensure that large companies pay equitably.

Martin Simons,
24 Granard Avenue,
Putney,
London SW15 6HJ, UK

Satisfying the most basic needs

From Mr M. Wilson.

Sir, The suggestion that Labour MPs appear to commit more financial indiscretions, while their Tory counterparts seem more active in the bedchamber caused me some moments of perplexity.

The penny dropped when I recalled Maslow's "hierarchy of needs". Of course! Sexual needs become paramount only when the basics – such as food and shelter (wealth) – have been satisfied. QED?

Michael J.C. Wilson,
'Bridleways',
42 Spring Roads,
Market Weighton,
York
YO43 3JE, UK

Paris system for repo clearance 'overlooked'

From Mr Jean Carren Billiard.

Sir, In your article on the London Clearing House ("LCH to offer clearing service for European repos", December 22), you assert that RepoClear, the proposed repo clearing facility, is the first in Europe.

The article has apparently overlooked the existence of Clearnet, the Paris Bourse's cash and repo clearing system. My company, Prominnofi, a European government securities broker, has been a Clearnet customer since its debut.

The Clearnet facility was launched on November 6 last year ("French house to expand", FT, December 2) and offers a clearing service in French government securities. It plans to extend this service to all euro-zone government securities in due course.

The project has been encouraged by a group of European banks with the aim of reducing counterpart risk and, in the process, reducing the amount of capital set aside against the possibility of default.

It also has the appeal of offering members the facility of "netting out" capital placed with Clearnet on their cash or repo transactions against existing margin/deposit capital with Clearnet.

The distinction between RepoClear and Clearnet is that Clearnet is operational and is used by the French government debt primary dealers, whereas RepoClear remains a project in development.

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PERSONAL VIEW GEORGE SOROS

To avert the next crisis

The IMF should be transformed into an international central bank so that it can act to *prevent financial crises as well as be the lender of last resort to distressed countries*

So will it be business as usual in 1999? The recent dramatic volatility in financial markets is but a distant memory. The miseries of Russians and Indonesians seem far away. But the global financial system still has fundamental flaws. Unless these problems are addressed and we learn the lessons of the past year, the system is liable to collapse.

Booms and busts are endemic in financial markets. Instead of moving like a pendulum, markets can move like a wrecking ball, knocking over one economy after another. The swings cannot be avoided altogether, but they need to be brought under control. International financial institutions, nobably the International Monetary Fund and the World Bank, were designed for a world devoid of large-scale capital flows. In the recent crisis, the IMF proved part of the problem rather than the solution.

The primary mission of the IMF is to preserve the international financial system. Its task is to ensure that a debtor country will be able to meet its international obligations, if not right away, then within the foreseeable future. The conditions it imposes on the debtor country include punitively high interest rates, which serve the dual purpose of stabilising exchange rates and creating a trade surplus by precipitating a recession. Both developments indirectly benefit lenders because they facilitate the repayment of debts.

This method of operation has given rise to what is now recognized as a moral hazard. In case of trouble, lenders can count on the IMF to bail them out; this has supposedly encouraged sloppy lending practices. Actually, the moral hazard is better described as an asymmetry in the treatment of lenders and borrowers.

There is another asymmetry in the way the IMF currently operates. It can intervene only in times of crisis; it has no authority to prevent a crisis from developing. Yet experience shows busts can be prevented only by moderating the booms that precede them.

These two asymmetries, taken together, explain why the IMF has become part of the problem. In the most recent crisis, the IMF imposed punitive interest rates and the countries concerned were plunged into deep recession. But when the crisis threatened the US, the Federal Reserve lowered interest rates and the US economy escaped unscathed.

The IMF is now under severe attack. There are voices calling for its abolition. Others want to cripple it by imposing all kinds of conditions. I believe these attacks are misconceived. If global financial markets are inherently unstable we need a stronger regulatory framework rather than the dismantling of existing institutions. To be specific, we need to convert the IMF into something resembling an international central bank.

I do not have in mind an institution like the Federal Reserve or the European Central Bank. I am talking about empowering the IMF to act as lender of last resort with regard to a select group of countries that are eager to obtain such protection. The countries concerned would have to follow sound macro-economic policies; have a sound banking system, with appropriate supervision; provide adequate information both to the IMF and to the markets; maintain flexible exchange rates with appropriate measures for the control of excessive capital flows; have proper corporate governance and bankruptcy laws; respect certain basic human rights and abide by the rule of law. In return, the IMF would stand by as a lender of last resort and provide an adequate supply of capital when financial markets were unwilling to do so.

Those countries which cannot or will not meet these conditions would continue to have access to the IMF on terms similar to those which are available currently with one important difference: in a crisis the IMF would impose conditions not only on the country concerned but also on the creditors. By putting would-be creditors on notice, the IMF would prevent excessive capital inflows from developing. If it still became necessary to impose a moratorium or a compulsory debt-to-equity conversion scheme, the international financial system would not be disrupted, because it would be an isolated case. The threat of contagion, inherent in the current arrangements, would be eliminated.

The new IMF would eliminate the imbalance between prevention and cure. The emphasis would be on prevention

Empowering the IMF to act as lender of last resort would radically change the mission of the IMF and the way it operates. It would eliminate the current imbalance in favor of creditors.

The new arrangement would also eliminate the imbalance between prevention and cure. The emphasis would be on prevention, where it properly belongs. Booms and busts would not be banished altogether; but the IMF, in its new incarnation, could also act as a kind of international central bank, regulating the environment for international capital flows in order to obviate the need to intervene as lender of last resort.

This is not an utopian ideal but an idea that could and should be implemented right now. It is implicit in a recent G7 communiqué, which proposed preventative actions and a contingency fund, and in the speeches of Bill Clinton, the US president, Gordon Brown, the UK Chancellor of the Exchequer, and other statesmen.

I would not like to pretend that it would be easy to establish the rules by which a reconstituted IMF would operate. An international regulator of credit and money supply would have to consider not only the countries at the periphery but also those at the centre of the global capitalist system. It would be improper for either the US Federal Reserve or the European Central Bank to allow its autonomy to be infringed by an international body; but both institutions would be represented on the governing body of the reconstituted IMF, and in that context, they would be better able to coordinate their global responsibilities.

Most global financial crises have been precipitated by a rise in interest rates. That was true in 1929, in 1982, and again in 1992 when the reunification of Germany destroyed the European Exchange Rate Mechanism. It was not the case in 1997-8, but it may well be the case in the next crisis. The ability to inject or restrict liquidity not only at the centre but at the periphery would open up policy options not now available. Something resembling an international central bank could provide the cornerstone of the financial architecture around which a new Bretton Woods conference could be organized.

In the US, a task force of the Council on Foreign Relations and others are studying the subject; there ought to be similar initiatives in Europe. But it is even more important that the countries that could benefit from a lender of last resort – in Southeast Asia, Latin America and the rest of the world – should address the issue. After all, if the new architecture is to correct the asymmetry between centre and periphery, countries at the periphery should have an important say in its design.

George Soros is chairman of Soros Fund Management and of the Open Society Institute and author of The Crisis of Global Capitalism

هكذا من الاصل

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
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Monday January 4 1999

Taking a lead from the euro

The birth of the euro, which starts trading on the foreign exchange markets today, is an important event in European history. It is the culmination of four decades of effort to bring the nations of Europe together after the devastation of two world wars. And it also points forward: to the immediate need for closer co-operation between nation states and perhaps, more controversially, to a federation with extensive central powers.

The political capital which European governments have invested in economic and monetary union in recent years has confounded sceptics. Even many of Emu's supporters refused to believe that 11 continental powers would be ready to merge their currencies by January 1 1999. There is every prospect that this impressive determination to get the process started will be carried forward to make it work.

The recent swing from conservative to centre-left governments in Europe may, it is true, lead to some uncomfortable debates about the relationship between fiscal and monetary policy and social objectives within the euro-zone. But there is no evidence that the new left-leaning governments question the fundamental desirability of Emu or the broad direction of its development.

That must inevitably lead to closer political integration, with profound consequences for the European Union. There are two sets of reasons for this, one practical and the other historical.

First, on a practical level, it is obvious that the operations of the new European Central Bank must be matched by closer co-operation over national fiscal policies, as was agreed in the Maastricht treaty of 1991. The extent to which the Euro-11 committee for euro-zone finance ministers will become a new centre of economic power remains uncertain.

But in considering, for example, the common problem of unemployment, ministers are bound to be interested in the interaction of their fiscal policies, the interest rates set by the ECB, and movements of the euro exchange rate. So there is little doubt that a common monetary regime will exert a strong gravitational force over all macro-economic decision-making.

Holding fast to four principles

Second, many in Europe will see this centralising tendency, from an historical perspective, as desirable as well as inevitable. As Sir Leon Brittan, the EU trade commissioner, has pointed out: "The union's purpose has been to cement the peoples of Europe together in a way that would make war unthinkable and impossible. That is a fundamentally political role, even if the tools used by the union are primarily economic." The first moves towards a common currency were, indeed, proposed almost 30 years ago at The Hague, to help in binding the original six EEC nations together.

Even from a purely economic perspective, the new currency represents much more than a convenience to facilitate trade within the EU, as some critics (particularly in Britain) are apt to suggest. The euro is founded on the economic ideals, shared by Britain's Labour government, of long-term monetary and fiscal stability. The vision of Europe as a zone of low inflation and sound government finances is a worthy one. And as a result of strenuous efforts in recent years, it looks attainable, despite problems of unemployment and high labour costs. Euro-zone inflation fell to only about 1 per cent in 1998, and it is unlikely to rise much this year. Meanwhile, government budget deficits represent about 2.5 per cent of the zone's gross domestic product, half the average figure in 1996.

More broadly, the euro creates an integrated economic bloc containing 290m people and accounting for about a fifth of world GDP. It has a larger population than the US and about the same share of world trade. It seems inevitable that, over time, political structures will evolve to match such economic power, even though the common defence and foreign policies envisaged in the Maastricht treaty have been slow in getting off the ground.

Nobody can be sure how fast integration will be, but the direction is clear. The euro represents a big stride along this path, and all EU members need to consider carefully where it is leading. In doing so, they must hold fast to four principles: the need for strict limits and a better definition of the powers of the centre; better transparency and democratic accountability of the EU institutions; preservation of a liberal and open economic regime; and overall, a strong and explicit regard for individual liberties.

The broad aim should be to limit the "federal" powers of the union to things that cannot be better done by nation states. The EU's principle of subsidiarity is supposed to achieve this. But its wording is much vaguer, for example, than that in the US constitution. This was intended to limit the powers of the federal government to those matters delegated by the states, but since the civil war it has not always been successful in doing so. Even without clearer wording, *the EU needs stronger means* for testing whether proposed EU legislation breaches the principle.

Economic openness, hard discipline

The European parliament, which now assumes an important role in scrutinising the ECB, might do more as a check on the commission and the council of ministers, but *greater openness*, particularly in the council, is also needed. Better scrutiny by national parliaments, perhaps through a joint committee, would help. There have been many other proposals, including a second chamber drawn from national parliaments, elected commissioners, a standing council of ministers, and the regular referral of constitutional matters to the European Court of Justice. But first, EU governments must recognise the need to limit the powers of the centre and to strengthen democracy and openness in exercising them.

Even more important is a broad agreement on the use of those powers. The intrusive, corporatist tendency of the 1980s proved widely unpopular, and the volume of such legislation has been much reduced. Even so, some in Europe would still like to create harmonised laws for everything that moves, from water purity to taxes. They must be resisted. So must *those who want to* institutionalise throughout Europe the excessive regulations which threaten competitiveness in their own economies. The euro, by increasing price transparency and competition throughout the zone, will encourage such demands. They must be resisted all the more.

Better political institutions in the EU are desirable, both to smooth the admission of new members and to make the union strong and outward looking. But they must not be used to frustrate the effects of an open trading economy, which will both improve general prosperity and help to preserve national and personal freedoms.

The euro will reinforce economic openness; but for companies and governments, it will also create hard disciplines. They must be accepted cheerfully to make Emu work. And from today, there is no choice. It *must* work.

Welcome to the euro-zone

The euro is the symbol of a new economic superpower, whose output matches that of the US. But its financial clout will depend on closer integration, says **Wolfgang Münchau**

After a manic weekend of preparations, traders will return to their euro-compliant desks this morning to discover that the world has changed. The euro has arrived with a big bang, displacing the more familiar D-Marks, francs and lire to a transitional and much diminished existence, mainly in the form of hard cash.

In financial centres, the euro will be the sole currency of the 11 countries which launched this unique experiment on January 1. The € symbol will be flashing on computer screens, showing new and unfamiliar exchange rates, bond and equity prices.

The euro will be larger than its constituent parts. It will be the world's second most-traded currency after the dollar. Europe's bond and equity markets, previously fragmented on national lines, will also become more liquid and integrated. In terms of size, the euro-zone and the US are evenly matched, each with a 20 per cent share of world economic output, followed some way behind by Japan. The world will become more tripolar.

But this may prove to be only a starting point. Europe's economic and monetary union is far from complete. While the introduction of the euro is an important historic achievement, the task of making the euro work has yet to start in earnest.

Emu is a game of double or quits. If accompanied by prudent policies and economic reforms, it could help secure sound and stable growth and reduce Europe's chronic unemployment. But if Emu fails, the whole process of European integration may be at risk. To make integration work, Europe has to be prepared for far-reaching changes.

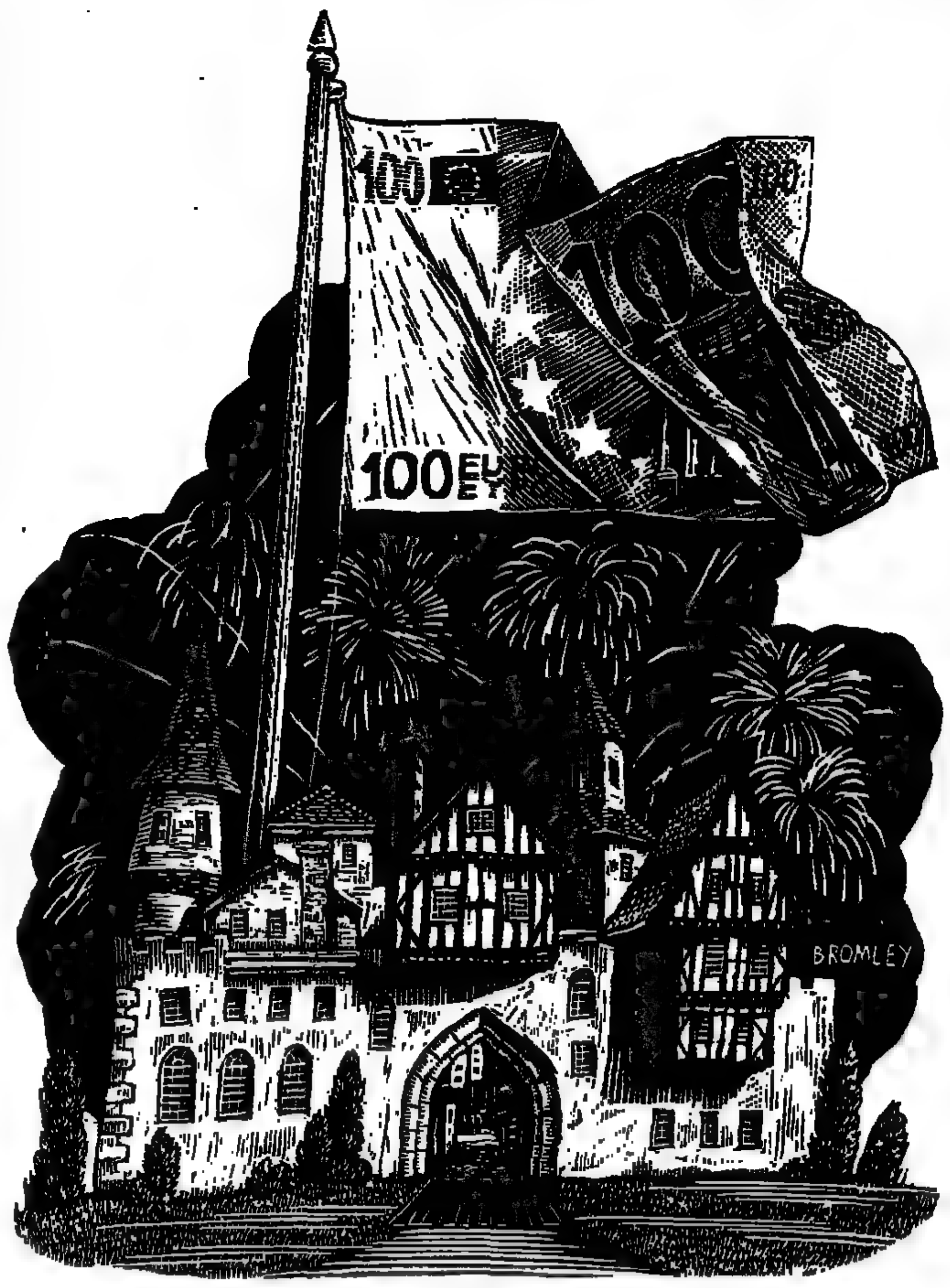
● **Structural reform.** In theory, the adoption of the euro deprives its members of two traditional tools of macroeconomic policy: the exchange rate and the interest rate. In practice, these instruments ceased to be relevant when most members of Emu tied their currencies to the D-Mark.

Emu also commits governments to strict budget guidelines through a stability and growth pact which places ceilings on fiscal deficits. Not a single macroeconomic weapon remains in the armoury of Emu members to defend them against unwelcome shocks. This means that even large countries, such as Germany and France, have ceased to exist as relevant macroeconomic units. To all intents and purposes, they have become regions.

To deal with shocks, euro countries will have to develop other defences. Two important shock-absorbers in the US are the mobility of labour and financial transfers from booming to depressed regions.

In Europe, language barriers restrict labour mobility. Even within countries, workers have often been reluctant to up stakes and move to where the jobs are. In Italy, for example, there is relatively little labour mobility between the north and south of the country.

Emu is therefore likely to remain extremely vulnerable to strong "asymmetric" shocks. Fortunately, they are relatively rare. German unification was such a shock, affecting Germany, as it did, much more than its neighbours. The oil crisis of the late 1970s was also a big external shock, but it affected countries in the euro-zone in a relatively uniform fashion.



The best shock absorber for *Europe would be the creation of a* robust economy and a gradual return to full employment.

Critics who are not familiar with Europe often argue that labour market inflexibility is the reason for high unemployment. There is some truth in this, but labour market flexibility is not the most important issue. European labour markets are much more flexible than they were in the 1970s or 1980s. Part-time and temporary work are more common. It has also become easier to sack employees.

The euro-zone will be a relatively closed economy. Its share of foreign trade to GDP will be about 10 per cent

The real issue is the high cost of labour – and more specifically the large gap between the cost of hiring an employee and net wages. A large part of that gap is accounted for by indirect labour costs and most of these are made up by pension contributions. Many European pension systems will need to be reformed to cope with ageing populations and to *increase their return on capital* invested. One way of achieving this is to move parts of the system on to a funded basis. At present, pension contributions are not invested but used to pay existing pensioners.

Europe's economy would also be strengthened if governments reformed the way the welfare system interacts with the labour market. Earned income tax credits – tax rebates for low income workers – significantly reduced unemployment in the US, and might, if introduced in Europe, constitute a socially acceptable way of embracing a low-income job sector.

● **Fiscal Policy.** Fiscal policy is governed by the stability pact which recommends that governments should run balanced budgets over an economic cycle. The *pact caps deficits at 3 per cent of* gross domestic product, but this ceiling is likely to come under pressure. Pension reform, for one, is likely to put a big strain on government finances, because of the loss of income when workers switch from state-funded schemes to individual retirement accounts.

It is not yet clear how effectively members of the euro-zone will coordinate their fiscal policies. It will be up to the finance ministers of the 11 member countries to do so. Their cooperation would greatly help the European *Central Bank to keep interest* rates low.

It is less clear whether Emu requires tax harmonisation. Tax systems vary widely among the 11 member states. Britain and Germany have recently been engaged in a fruitless debate on this issue. It is difficult to conceive how a single and integrated *economy can afford to run* completely different tax systems in the long run but the process of convergence may take some time.

The US has made clear it rejects Franco-German proposals for exchange rate target zones

● **Monetary Policy.** Monetary policy will play a critical part in the success of Emu. It is a potentially destructive power. Bad monetary policy can destroy Emu, while good monetary policy may not necessarily save it if Emu comes under pressure.

Europe's fiercely independent central bankers have traditionally emphasised price stability as their primary target. But last month's co-ordinated interest *rate cut* by a number of central banks suggests a new sensitivity to global financial risks and the projected economic slowdown in 1999.

No advantage would be gained if Europeans were to abandon the goal of price stability in exchange for uncertain trade-offs.

But with euro-zone inflation at about 1 per cent and falling, and nominal short-term interest rates at 3 per cent, the low level of real interest rates represents a relatively expansionary monetary policy stance for the current economic environment. The ECB still has limited room for further rate cuts – maybe up to 0.5 percentage points in the absence of any deflationary shocks – but it would be wise to time those cuts for maximum effect.

● **The international economy.** US officials in particular hope that Emu will make the Europeans less parochial and introspective. Emu may also render Europeans far more assertive as the euro-zone becomes an effective economic superpower.

Unlike some of its individual members, the euro-zone will be a relatively closed economy. Its share of foreign trade to GDP will be about 10 per cent, similar to that in the US. But while the US has traditionally followed a policy of benign neglect towards the dollar, Europeans have tended to be obsessed by the exchange rate. This could be about to change, as Europeans discover that the euro-zone as a whole is less sensitive to exchange rate movements.

But it might be wise for policymakers to encourage a stable currency, and in particular, to prevent any excessive appreciation of the euro against the dollar. Wim Duisenberg, president of the ECB, has already indicated that monetary policy will be designed to maintain a competitive euro. The US administration has also made it clear that it rejects Franco-German proposals for exchange-rate target zones, which would allow the exchange rate to fluctuate in a given band around a target.

One area of international policy co-operation that is proving exceedingly difficult, however, is the question of how the euro-zone should be represented on the world stage. France, Germany and Italy want to retain their individual seats at the G7 table, alongside new representatives of the euro-zone. The US administration rejects this double representation, which might also undermine the euro-zone itself. Haggling about who represents what is a time-honoured tradition within the European Union, where there has always been a need to balance the interests of small and large countries. However, this squabbling does not befit an economic *superpower.*

Emu's chances of succeeding, therefore, will depend on more than just good luck and good timing. Europe needs structural reforms, co-ordinated economic policies, a strong commitment to enhance growth, and a readiness to accept greater responsibility for the global economy. Any one of these new policies would entail a big departure from the cosy way Europeans have run their countries. Together, they add up to a fundamental change in regime.

OBSERVER

Off piste for Russians

Apart from avalanches, the big risk on the piste in Europe this winter is the influx of New Russians – complete with armed guards, bags of cocaine, wads of US dollars and reputedly boorish manners.

Their record is so bad that a number of Austrian hotels and at least one chalet agency in the Trois Vallées region of France are refusing to accept any Russian guests. Time was when the Russians, who celebrate Christmas and New Year in January after everyone else has *gone home, filled a gap in the ski* resorts' calendars. But now their habit of barging other hotel guests aside and annoying chalet staff – the ritual search for bugging devices provides a rare source of amusement – has made them about as welcome as an early thaw.

A chalet worker reports one recent group used only four words of English all week – "Fetch, chicken, ham, eggs." Another New Russian gripe is being offered too good a deal: a French chalet operator says a group turned down a cut-price package – and went to find a higher price elsewhere. Chalet staff aren't complaining.

Serial director

Jean-Marie Messier may have been only 39 when in 1996 he rose to the top of Vivendi, the company formerly known as *Générale des Eaux*; but his enthusiasm for accumulating directorships is more typical of more elderly boardroom types. And it's definitely out of line with the recommendations set out in the 1995 Viénot report on corporate governance in France.

It's understandable that Messier should figure on the board of every one of Vivendi's existing subsidiaries (Canal Plus, Cegetel, CGEA, CGIS Générale de Chauffe, Havas, SGE) as well as on the board of its new Spanish acquisition FCC. But he also serves at former subsidiary *Saint-Gobain and at unrelated* companies such as LVMH and Strafor Facom.

Even so, Messier's portfolio looks fairly modest against that of boardroom champion Antoine Bernheim, 74, who has got seats on the boards of various Lazard associates (Gaz & Eaux and Eurafrance) as well as chairing Italian insurer Generali and its French subsidiaries and being a director of companies such as AXA, LVMH, Bolloré Technologies, Albatros Investissement, Ciments Français, Eridania Béghin-Say and the André group. To fill in the time, he's also deputy chairman of Italy's Mediobanca.

Corporate governance, incidentally, translates into French as *le corporate governance* – one bit of creeping Anglo-Saxon the Academie Française somehow managed to completely overlook.

Matter of taste

It's never too late to change your colours. Take the Scottish Moncrieff clan, founded in 1248, which has just agreed on a new tartan to take it into the next millennium.

The ancient clan has marked its 750th anniversary by inviting around 1,000 family members to vote on alternative designs – displayed on the Internet – to an existing tartan, thought by some Moncrieffs to be a bit on the boring side.

The winning entry comes from insurance underwriter Morag Moncrieff, 39, who drew up the new look – more green, less red – in a couple of nights. The original tartan will be retained while the new one will also be wheeled out to brighten up those interminable clan gatherings. Then again, an especially created anniversary single malt whisky should do that on its own.

Common goal

For the football-crazy Vietnamese, soccer is a deadly serious business. So perhaps it's not surprising that the national team's first fixture of the new year is against a visiting under-23 squad from recently-bombed Iraq. The games, one in Hanoi and one in Ho Chi Minh City, are the latest stage in efforts by Hanoi to strengthen links with Baghdad, *following visits last year from* what might seem an unusually large number of senior Iraqi officials and delegations.

Aside from football, the two nations have areas of mutual interest. Vietnam's state-owned oil company hopes eventually to get involved in work in Iraq, and Iraq is an important customer for Vietnamese rice exports. For good measure, both have experience of international sanctions – and of being bombed by the Americans.

That's the spirit

Feminists have long felt uncomfortable with the fact that the first British woman prime minister turned out to be the headbanging, handbagging Baroness Thatcher. But they might feel a little more at ease if they catch up with an explanation provided to coffee drinkers in a New York coffee house.

Customers browsing through Happiness Monthly – the newsletter of a Japanese religious cult called the Science of Happiness – can answer a quiz section that includes the following: "The spirit of which 20th-century British politician switched sexes just prior to being born in its current reincarnation?" All makes sense in retrospect.

The Financial Times

100 years ago

A Flying Machine
Our Paris Correspondent points out to us that inventors of flying machines are not confined to this side of the Channel, but that the genus is well known in France. One pioneer of aerial navigation has, he informs us, advertised every Saturday for a year past in "The Journal" as follows: "Engineer, 35 years old, will marry a handsome lady of a poetical and sentimental disposition who may be desirous of realising the happiness of humanity and at the same time of making a profit of five hundred million francs by helping to expedite construction of a flying machine enabling folk to fly like birds."

50 years ago

S. Africa Problems
Johannesburg. South Africa must export more and import less and guard against the consequences of inflationary pressure by not only the measures – credit restriction – already indicated by Dr de Kock, Governor of the Reserve Bank, but probably by other restrictions yet to be decided and imposed.

FINANCIAL TIMES
MONDAY JANUARY 4 1999

THE LEX COLUMN

Strong by default

What are the omens for the new European currency? Will it be a healthy baby or a sickly one? Confident or anxious?

The squabbles right up to the moment of the euro's birth were certainly dispiriting. The French were furious with Wim Duisenberg, head of the European Central Bank, for allegedly reneging on a deal to retire in three-and-a-half years. Meanwhile, the Germans resumed their pressure on him to cut interest rates.

Neither argument carries that much weight; the ECB is, after all, one of the most independent central banks created. But this is not the most supportive political framework for the new child to grow up in.

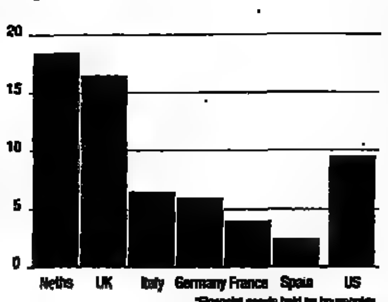
That said, in the new tripolar financial world, the euro's cousins – the yen and dollar – are in an even poorer state. Japan may well be driven to print money to escape from its seemingly endless slump, while the US habit of borrowing from the rest of the world will eventually catch up with it. Because everything is relative in currency markets, the betting must be that the euro will be strong, if only by default. The euro's external strength will probably go hand in hand with a strong anti-inflation stance at home. The ECB itself has effectively set an inflation target of between 0 per cent and 2 per cent, although it is so fond of obfuscation that it refuses to spell out its goal quite so precisely.

Given the deflationary forces abroad and the euro's probable appreciation, actual inflation is likely to be in the bottom half of the range. And, although the ECB may try to counteract this by cutting rates, at 3 per cent it does not have that much scope to fall.

But a strong currency is not necessarily a healthy one. And here is the real problem: for all the convergence on the macro front, such as the fiscal belt-tightening (some fake, some genuine), the single currency project has been rushed. There has not been anything like enough micro reform to ensure that the euro-zone will thrive under the new single monetary policy. Labour markets remain excessively rigid and state-sponsored pension systems are largely unreformed, despite the demographic time-bomb ticking away relentlessly.

One consequence of a "one size fits all" monetary policy is that the 11 nations that have signed up need to work harder to find flexibility in other aspects of economic policy. But the euro-zone is more rigid in almost all dimensions than the US, an economic entity of roughly the same size. Not only are workers much more willing to move around the US in search of jobs, it is much easier to hire and fire them, meaning wages are more flexible.

Home country bias
Foreign assets as a % of total* (1996)



*Financial assets held by households, pension funds, insurance companies and collective investment schemes
Source: Intersec/Merrill Lynch

Added to this are differences in fiscal arrangements. The US has a largish federal budget which allows it to soften the blow when one region suffers a slowdown. The euro-zone not only lacks this capability but individual nations are severely limited when it comes to cushioning their own economies. The stability and growth pact prevents fiscal deficits exceeding 3 per cent of gross domestic product.

In the absence of greater micro flexibility, unemployment will remain high in the euro-zone. At 10.8 per cent, it is more than double the 4.5 per cent in the US. And this is the main source of the anxiety witnessed in the comments of European leaders such as Oskar Lafontaine, Germany's finance minister. But the sort of macro reflation he advocates will not work; changes at the micro level are needed.

Whether politicians like it or not, the single currency will increase the pressure to adapt. This is not just because escape routes such as devaluation, a traditional way out for uncompetitive economies such as Italy, have been permanently shut off. Competition will increase across the board as the abolition of currency frontiers makes it easy to compare prices. This will go a long way towards completing the single market in goods and services.

Much of the action will be in the capital markets, which are still very fragmented. In 1996, the largest euro-zone countries – Germany, France and Italy – invested only about 5 per cent of their financial wealth abroad (see chart). That was partly out of the view that it was risky to invest in foreign currencies. But, within the euro-zone, foreign exchange risk has now been abolished. As investors discover that the real danger lies in keeping all their eggs in one basket at home, capital will flow across frontiers. Indeed, the flows have already started.

The creation of a single capital market will unleash competition for funds. This will in turn put weight behind the shareholder value movement, which is based on the belief that companies ought to be run to maximise the wealth of investors. Those that perform well will get the funds to expand; those that do not will face the squeeze. They will less and less be able to rely on trapped local capital being channelled their way by friendly financial institutions.

A single capital market will also add impetus to the restructuring of European industry on transnational lines. Cross-border paper-financed mergers will now be much easier. Shares denominated in euros will be widely acceptable to investors through the euro-zone and perhaps further afield.

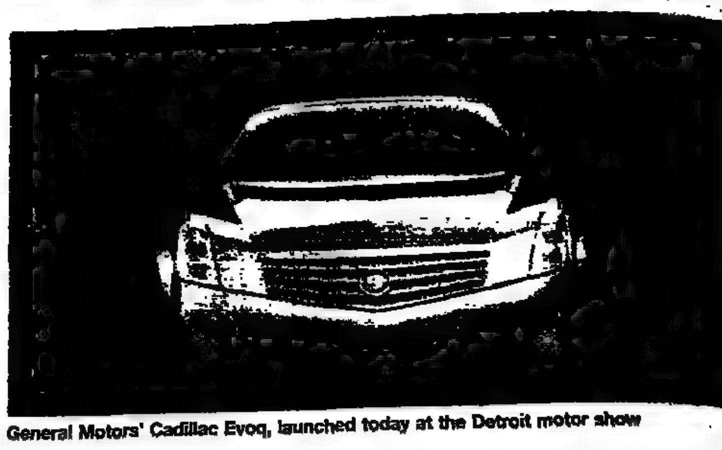
Much, of course, remains to be arranged before there is a completely integrated capital market. A pan-European stock exchange, for example, has yet to be formed – although the London and Frankfurt exchanges along with other bourses are in tortuous negotiations about creating one.

The euro-zone definitely has problems, notably excess rigidity, that make the single currency risky. But, paradoxically, the euro's creation has also set in train changes that will do much to correct these defects.

The new currency bloc can expect a bracing first few years, but the signs are that it will pull through and, in the end, be better for it.

GM unveils radical roadster to revive Cadillac fortunes

By Haig Simonian in Detroit



General Motors' Cadillac Evoq, launched today at the Detroit motor show

General Motors, the world's biggest vehicle maker, yesterday launched its boldest drive to revive Cadillac as a global luxury brand by unveiling a radical concept car for the Detroit motor show.

The aggressively styled Evoq convertible is expected to set a marker for future Cadillacs in an attempt to modernise the ageing marque.

It is one of five concept cars that GM is unveiling to drum up interest in the group's US brands, which have been criticised for uninspiring models.

Sales of Cadillacs, launched in 1903 and once marketed worldwide, have stalled in recent years as the brand retreated to the home market.

Last year Cadillac was outsold in the luxury segment for the first time by Ford's prestige Lincoln marque.

Total Lincoln production rose by 12 per cent to just over 200,000 units in the year to mid-December 1998. By contrast, Cadillac output, excluding the European-built Catera, rose by just 6 per cent to 178,000.

The Evoq roadster, a boldly styled two seater with a retractable hard top and a supercharged V8 engine, is intended to shrug off Cadillac's geriatric image and re-establish its upmarket credentials in GM's portfolio.

Apart from more radical styling, the car contains a raft of high tech features expected to be used on future Cadillac models before filtering down the GM range.

Among them are GM's Night Vision technology, which helps night-time driving by using infra-red sensors to detect objects well beyond the reach of normal headlamps. The thermal images generated are displayed above the instrument panel.

John Smith, Cadillac's general manager, cited Night Vision as an example of the brand's new emphasis on technology.

"Ten years from now, it will probably be available in half the products GM offers, but it started first in Cadillac," he said.

Other innovations on the Evoq include cameras to replace rear mirrors, a radar and ultrasound-based obstacle detection system and sophisticated on-board computing and communications.

General Motors: Special report, Page 22

Senators consider move to speed up Clinton trial with test vote

By Stephen Fidler in Washington

Prominent US senators yesterday backed a proposal to speed up the trial of President Bill Clinton, which could start as early as next Monday.

However, the procedures that would be adopted by the Senate in the impeachment trial were still in doubt. The majority Republican party in Congress remained divided over a proposal that the Senate should have a test vote on whether to proceed with a trial, following the outlining of the cases for the prosecution and the defence.

Senate Republicans are expected to meet on Thursday to discuss the issue, Mitch McConnell, the Kentucky Republican who is chairman-designate of the Senate rules committee, told ABC television's This Week programme.

The proposal for a test vote has come from Slade Gorton, the Republican Senator from Washington, and Joseph Lieberman, the Connecticut Democrat. It is being considered by Trent Lott, the Senate majority leader.

The test vote would be held before witnesses were called, to determine whether the Senate considered the alleged offences grave enough to justify the president's removal. If a two thirds majority decided the offences were not grave enough, the trial would not go ahead.

According to Mr Lieberman, speaking yesterday on CBS Television's Meet the Press, a test vote would assume that Republican prosecutors from the House of Representatives "are able to make their case".

Mr Gorton said he believed the allegations were serious enough to justify the president's removal, but he did not think a two-thirds majority of the Senate thought so. The Senate meets again on Wednesday.

The prospect that witnesses such as Monica Lewinsky, the former White House intern at the centre of the case, could be cross-examined in the Senate is one that concerns some senators. Mr McConnell said he was not interested in having "all those folks in the well of the Senate being cross examined". Others said the calling of witnesses could turn the trial into a "carnival".

Phil Gramm, Texas Republican, told CBS he favoured an expedited trial, as did Joseph Biden, Delaware Democrat. Arlen Specter, Pennsylvania Republican, said he favoured a speedy trial – and that the calling of a few witnesses need not extend the process significantly.

Senators speaking at the weekend appeared anxious to avoid the accusations of partisanship that were levelled at the conduct of the impeachment proceedings in the House.

Most senators polled on yesterday's television talk shows opposed the idea of a censure vote, many doubting its constitutionality.

CONTENTS

News

Features

Companies & Finance

Ferocious winter weather in the US wreaked havoc at airports and on the roads, paralysing much of the country. Page 3 Picture: Reuters

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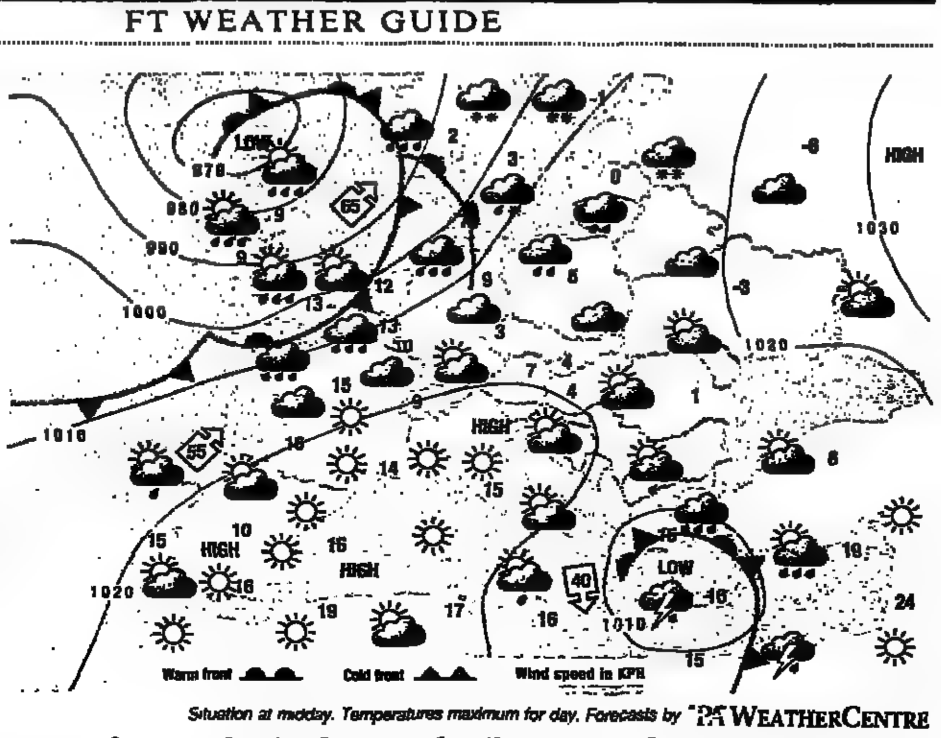
FT WEATHER GUIDE

Europe today

France, the Low Countries, Denmark and south-western parts of Norway and Sweden will be mild, windy and wet. The rest of Scandinavia will be cold with snow flurries. High pressure from Spain through southern France, the Alps and across to the Black Sea will bring mainly dry and settled conditions with sunny spells, although morning fog may be slow to lift from the valleys. The eastern Mediterranean will be unsettled.

Five-day forecast

North-western Europe will stay windy and unsettled with rain but it will become mild. Northern Scandinavia will stay cold with snow at times. From southern Scandinavia to the Baltic countries, it will become milder, with rain and gusting winds. High pressure will maintain mainly fine conditions over much of southern Europe.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	24
Accra	Fair	33
Algiers	Sun	19
Amsterdam	Rain	12
Athens	Rain	15
Atlanta	Fair	0
B. Aires	Thunder	28
B.ham	Shower	12
Bangkok	Sun	33
Barcelona	Sun	13
Beijing	Sun	8
Belfast	Shower	6
Belgrade	Rain	3
Berlin	Rain	9
Bermuda	Rain	25
Bogota	Fair	21
Bombay	Sun	32
Brussels	Rain	13
Budapest	Fair	4
C.hagen	Rain	7
Cairo	Sun	21
Caracas	Cloudy	29
Cardiff	Shower	12
Casablanca	Sun	19
Chicago	Snow	-9
Cologne	Rain	12
Dakar	Fair	25
Dallas	Sunny	5
Delhi	Sun	21
Dubai	Sun	24
Dublin	Shower	9
Dubrovnik	Sun	14
Edinburgh	Shower	6
Faro	Fair	16
Frankfurt	Drzzl	12
Geneva	Fair	9
Gibraltar	Fair	16
Glasgow	Shower	6
Hamburg	Thunder	11
Helsinki	Snow	-1
Hong Kong	Sun	20
Honolulu	Thunder	27
Istanbul	Fair	11
Jakarta	Thunder	30
Jersey	Rain	13
Johannesburg	Fair	26
Karachi	Sun	25
Kuwait	Sun	23
L. Angeles	Sun	23
Las Palmas	Sun	23
Lima	Cloudy	25
Lisbon	Cloudy	15
London	Shower	13
Luxbourg	Rain	10
Lyon	Fair	14
Madeira	Fair	20
Madrid	Fair	10
Majorca	Sun	16
Malta	Fair	16
Manchester	Shower	10
Manila	Cloudy	29
Melbourne	Fair	29
Mexico City	Sun	24
Miami	Shower	19
Milan	Fair	9
Montreal	Snow	-4
Moscow	Cloudy	-6
Munich	Fair	12
Nairobi	Fair	29
Naples	Sun	15
Nassau	Shower	25
New York	Fair	2
Nice	Sun	14
Nicosia	Shower	19
Oslo	Sleet	2
Paris	Drzzl	15
Perth	Sun	24
Prague	Drzzl	3
Rangoon	Fair	33
Reykjavik	Cloudy	2
Rio	Thunder	27
Rome	Sun	15
S. Frsco	Sun	16
Seoul	Sun	6
Singapore	Thunder	29
Stockholm	Sleet	3
Strasbourg	Drzzl	13
Sydney	Sun	29
Tangier	Sun	18
Tel Aviv	Sun	24
Tokyo	Cloudy	11
Toronto	Fair	-5
Vancouver	Shower	10
Venice	Sun	7
Vienna	Cloudy	7
Warsaw	Shower	5
Washington	Fair	2
Wellington	Fair	21
Winnipeg	Snow	-16
Zurich	Fair	11

هكذا من الأصل

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

New Visteon chief keen to break free

As the new head of Visteon, the second biggest automotive supplier in the world, Craig Muhlhauser (left) is moving fast to create a "shadow" structure of an independent company as soon as possible. Mr Muhlhauser, who joined Ford Motor's parts offshoot in July 1997, took over on January 1 from Charlie Szuluk, who had overseen Visteon's moves to partial independence from Ford in September 1997. Page 26

Traders learn lessons of a hard year

Emerging markets traders spent last year sobering up. Thoughts of quick returns were displaced by a realisation that the risks often outweighed the rewards. The lesson has been that domestic crises can send all emerging markets down, regardless of individual national economies' strength. Emerging Markets, Page 26; Chile's year to forget, Page 26

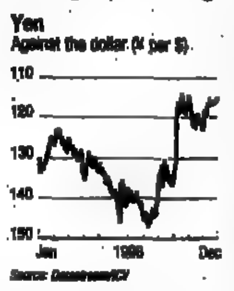
Regional ale brewers can stay strong

The Campaign for Real Ale says real ale lovers should not feel too downhearted over the loss of two more regional breweries last year. Camra says neither of the closures were necessary and that the UK regional brewers can still prosper if they concentrate on cask ales. Page 24

Tomkinsons upbeat on trading

Tomkinsons, the UK floor covering maker and supplier, said November and December trading was better than it had expected. Its optimism contrasted with gloomy comments from other home furnishing groups. Page 24

New year to begin as old one ended



Analysts agree that the currency markets in 1998 "broke the record books" for volatility and uncertainty. It was a year that many, especially those veterans of the dollar-yen gyrations, will be happy to forget. The new year is likely to begin as the old one ended, with low volume in the markets and few traders wanting to take big bets until the euro has settled. Currencies, Page 29

Rally in western bonds powers on

Conservative investors reaped dividends last year with leading western government bonds providing by far the best returns in the global fixed-income market. With the possibility of deflation likely to become a theme soon, the rally in western government bonds is by no means over. Bonds, Page 29

Prospects for Nikkei not bright

Tokyo's Nikkei 225 index fell more than 9 per cent to 13,842 in 1998, the third straight year in which it ended lower than it began. Prospects for this year are not bright, largely because economic fundamentals remain grim. Page 28

FT GUIDE TO THE WEEK

– full listings Page 40

FIRST DAY FOR EURO
Today is the first working day for Europe's euro currency, including closure of first price quotes in euro at the Brussels Bourse.

MIDDLE EAST VISIT BY JAPANESE
Masahiko Komura, the Japanese foreign minister, begins a week-long visit to Israel, Egypt and the Palestinian territory tomorrow.

BLAIR VISITS SOUTH AFRICA
Tony Blair, the UK prime minister, begins a three-day visit to South Africa on Wednesday.

HOUSE SITS FOR FIRST TIME
On Wednesday the newly elected US House of Representatives sits for the first time.

SALZBURG CONFERENCE
Austrian Chancellor Viktor Klima's Social Democratic party opens its annual conference in Salzburg on Thursday.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Liffe firms fear Griffin backlash

Independent traders on London derivatives exchange expected to withdraw funds

By Clay Harris, Banking Correspondent

Smaller clearing firms on London's derivatives exchange are expected to face a huge outflow of capital today as independent traders withdraw funds in the wake of the biggest trading scandal since the Barings collapse in 1995.

The independent traders, known as locals, at London International Financial Futures and Options Exchange (Liffe) are concerned about a lack of protection.

At least one firm has taken out indemnity insurance to try to discourage withdrawals, while one of the bigger banks expected to benefit from the flight to perceived quality said yesterday: "We will have locals queueing at the door."

On one of the most closely watched trading days following the launch of the euro, Liffe could also find itself at a competitive disadvantage because capacity has been slashed by the freezing of traders' accounts.

Trading in certain maturities of European interest rate futures, where locals provide much of London's liquidity, may be especially hit. The crisis for Liffe follows the collapse of Chicago-based Griffin Trading Company because of a £6.2m ($10m) loss by an independent trader who cleared through its London branch.

Liffe has been caught up in the scandal even though the trader, John Park, did the trades in question on Eurex, its continental European rival *and successor to Frankfurt's* Deutsche Terminbörse (DTB).

Trading futures contracts in German government bonds just before Christmas, Mr Park exceeded his authorised limit by 10 times in transactions through the broker Tullett & Tokyo. Investigations will focus on how Mr Park managed to conceal the extent of his exposure from Griffin.

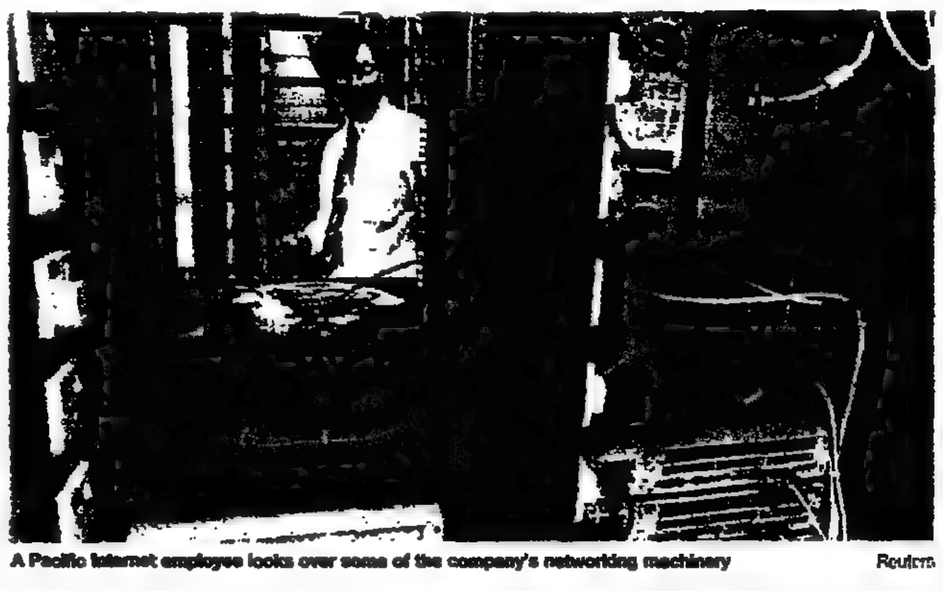
Some attention may be paid to a dinner Mr Park had with a contact at Tullett & Tokyo a few days before.

A Liffe official suggested the incident highlighted flaws in Eurex's clearing procedures *and could result in the London* market winning more business from its rival.

But local traders caught up in the collapse because their funds are at risk after being frozen by Griffin's clearer, MeesPierson, have been outraged by UK regulators' suggestion they should have insisted on segregated accounts. Most were surprised to learn their funds had not been segregated.

One local contrasted London and the orderly transfer of Griffin's customer accounts in the US by the Chicago Board of Trade, whose clearing house *maintains a $100m safety net.* She said London locals would no longer leave any funds in their clearing accounts above the minimum necessary for trading margin. "You're going to pull out your money every single day," she said.

Pacific Internet poised to launch first US offering



A Pacific Internet employee looks over some of the company's networking machinery · Reuters

By John Labate in New York

Pacific Internet, the online service provider owned by the Singapore government, is planning to cash in on the US internet share price boom with an initial public offering within the next fortnight.

The IPO will be the first internet offering in the US by an east Asian company. Pacific Internet has registered to offer 2.5m shares or 20 per cent of its outstanding shares at an offer price between $13 and $15, raising about $35m. The lead underwriter of the deal is Lehman Brothers and the *shares are expected to trade on* the Nasdaq stock market.

The offering comes as US equity markets are expected to absorb a new round of first-quarter internet IPOs. The company is the largest of three state-owned ISPs in Singapore, and the government's plans to raise funds in the US show a willingness to cash in on the investor frenzy for internet shares.

Enthusiasm for many of the internet sector's leading names remains high. Last week America Online – a company similar in *structure* to Pacific Internet, but on a far grander scale – reached an all-time closing high of $160 per share, in the wake of what many had expected to be a robust online holiday shopping period in the US.

The recent rebound in internet IPOs, *however, some of* which have set records for first-day share price gains, has been overwhelmingly by US companies. It remains uncertain whether US investors will back Pacific Internet and other IPOs from emerging markets with the same force as deals from their own country, especially with uncertain near-term economic growth to consider.

"The use of the internet is expanding in Asia and because of that this company has pretty good prospects," said Peony Kao, analyst at Renaissance IPO Fund. "The main concern is if people will be willing to pay for internet connections in an unstable economy."

Pacific Internet's recent suc*cesses are likely to turn heads*, though, not least because it has managed to expand and make money at the same time. For the first nine months of 1998, the company reported revenues of S$53.1m (US$31.5m) and net income of S$10.1m (US$6m).

It provides online connections, mainly to consumers, in three main markets: Singa*pore, Hong Kong and the Phi*lippines. Although small, with just under 200,000 subscribers in June 1998, analysts believe the company will continue to prosper as the Asian internet sector takes hold.

ADRs slide as non-US companies stay away

By John Labate in New York

The volume of new issuance of American Depositary Receipts – secondary share offerings by foreign companies – tumbled in 1998 to its lowest level in nearly a decade.

Volume fell to about 40 per cent below the average of previous years as companies scaled back plans to float their shares in response to the global financial crisis.

Non-US companies raised just $10bn through ADR offerings last year, according to the Bank of New York, the largest lead-manager of foreign secondary offerings in the US.

In contrast, volumes of new listings exceeded $18bn in 1997, which itself was slightly below the levels of 1996.

At the same time, however, those non-US companies that came to the market met with high demand from US investors, with the amount of trading volume in ADRs rising more than 20 per cent on the US exchanges last year.

A separate study of ADRs by Citibank, the subsidiary of Citigroup, found that the 20 most actively traded ADRs had outperformed the Standard & Poor's 500 index through mid-December, rising by 25 per cent in 1998.

"We think it indicates investor demand for the high-quality equity programmes in volatile markets," said James Donovan, global managing director for depositary receipts at Citibank.

The UK again had the highest number of ADR programmes listed at 20 for 1998, followed by 17 each by companies in Brazil and Russia. Equant NV, the data networking services company based in the Netherlands, had the largest issue for the year at $705.5m, followed by Telekomunikacja Polska SA, of Poland at $601m, according to Citibank figures.

Analysts are split on what impact European monetary integration will have on the US ADR market in the year ahead. Deeper European capital markets are expected to raise the level of overall activity. But it is unclear what euro-zone stock exchanges are offering to attract more new listings.

"We don't think [companies] will abandon dollar-based listings for European-based listings," said Mr Donovan.

European equity alliance launched

By Vincent Boland in London

The pan-European equity market alliance between the Frankfurt and London stock exchanges opens this morning, with the German partner expected to be the clear early *beneficiary*.

The accord, which is expected to widen later in the year to include up to six more European exchanges, means that trading in German company shares will move to Frankfurt and dealing in UK shares moves to London.

The agreement to concentrate liquidity in domestic markets – seen as a concession to Frankfurt by the LSE – is expected to dent severely the volume of international equity trading in London.

The UK market is by far Europe's largest international trading centre and turnover in German shares accounts for between 10 and 15 per cent of the total of its overseas business.

Turnover in international equity trading on the London Stock Exchange rose 52 per cent this year to £2,195bn ($3,687bn), and trading volume in German stocks in the UK market, which reached £170bn in 1997, is understood to have risen sharply during 1998.

Turnover of UK stocks in the Frankfurt markets, however, is less than 10 per cent of that figure. But total equity trading volume on the German stock exchanges rose 45.3 per cent in 1998 to DM5,400bn (€2,770bn, $3,253bn), according to Deutsche Börse, which operates *Frankfurt's financial markets.*

As part of the first phase, the two exchanges will also allow dual access for each other's member firms. Cross-membership is expected to have little impact on how firms deal with the London and Frankfurt exchanges *because most of the big share-*trading firms are already members of both.

As a result, an offer of free technology to allow firms to gain access to both markets is believed to have had a mixed response.

The moves coincide with the arrival of the euro and are the earliest steps on the way to the creation of a single platform to trade the shares of the leading UK and German companies – essentially the members of the FTSE 100 and Dax indices. But the final shape of the venture will not emerge until at least next year.

PHILIP COGGAN
GLOBAL INVESTOR

Measure of uncertainty

What price shares? The challenge for investors and analysts watching the markets in 1999 will be to work out a new relationship between equity and bond valuations.

It has become clear in the 1990s that some of the old measures for valuing shares are no longer useful, especially for fund managers whose performance is measured in the short, or even medium, term. Anyone betting against the US market on the grounds that its dividend yield was at an all-time low or that the price-earnings ratio was at a historic high has been repeatedly disappointed.

The justification for these extremes has been the decline in inflation and the resulting falls in bond yields to levels not seen for a generation. This has prompted a steady uprating in share valuations, with occasional interruptions, since 1982.

US analysts prefer to look at the earnings yield – the inverse of the price-earnings ratio – relative to the bond *yield. This approach* has been much more supportive of Wall Street. At the start of 1996, when most non-US investors would have seen the US market as expensive, the earnings yield ratio made it look dirt cheap. Even now, with the Dow Jones Industrial Average close to all-time highs, the ratio is well below the peak 1987 level.

But that is no justification for *complacency among* equity investors. The reason old-timers liked looking at dividends rather than earnings was that the latter are subject to manipulation. Given that any earnings disappointment is savagely treated by the market, manipulation seems likely to continue, especially as so many executives are loaded up with share options.

Furthermore, for all that dividends are no longer fashionable, many investors still need income to pay their clients and beneficiaries. Share buy-backs are all very well but must be classed a lower quality form of income than dividends. A dividend cut is a highly market-sensitive event, whereas the quiet shelving of a buy-back programme is much *less likely to be noticed.*

Takeovers, the other main route for cash to flow back to investors, are a highly erratic source of income. The acquisition binge dried up during the market plunge of mid-July to early October. And most recent deals have been nil premium *all*-share mergers.

Another fundamental issue is whether the new low inflation growth also implies slower growth for corporate profits. The fact that US corporate profits in recent years have repeatedly fallen short of initial estimates is often dismissed as a statistical quirk; earnings forecasts are based on the rosy predictions of "bottom-up" analysts that all serious investors take with a bucket of salt.

But what if profit growth in recent years has been mainly driven by a fortunate combination of cost-cutting, falling interest rates and lower commodity prices?

These factors cannot continue forever; manufacturing companies are already suffering from the crippling effect on margins of global overcapacity in their sector.

In addition, how should valuation measures adjust for the increasing importance of internet stocks within the US market, where multibillion pound companies normally have negative earnings and, sometimes, precious little in the way of sales?

Even if one swallows the line that these companies will be churning out the profits within five years, what will that mean for overall market earnings? *Many of the likely* internet successes, such as Amazon.com, owe their appeal to their ability to undercut more traditional competitors. In the long term, their growth may make the economy more efficient but, in the short term, their success will put margins and profits under pressure. This could mean large parts of the service sector will face the same squeeze as manufacturing.

The result could be that profits, having risen faster than gross domestic product in the US and Europe for several years, could face a long period in the doldrums. In such circumstances, the greater security and higher income available from bonds could seem more attractive in spite of the historically low levels of nominal yields. The earnings yield-bond yield ratios that worked as a guide to market valuation in recent years may not do so in future.

Midwest giant struggles to find forward gear

As the US motor industry gathers at the Detroit Motor Show, **Haig Simonian** and **Nikki Tait** examine the daunting task facing the world's biggest vehicle maker

Dave Leahy, plant superintendent at General Motors' engine works in Moraine, Ohio, heads out on a site inspection. As he turns on his truck's ignition, a Japanese language tape starts playing. Mr Leahy cautiously throws out a few phrases.

A decade ago, Japanese carmakers were reviled by US competitors. Today GM, the world's biggest vehicle builder, is offering middle managers language lessons as it tries to inculcate Japanese know-how into its activities.

Mr Leahy's struggle with Japanese is just one example of the transformation rocking America's biggest manufacturing company. For the first time in its history, GM is having to adapt to the challenge of globalisation in a bid to catch up with competitors that have overtaken it, if not in size, then in effectiveness. Long an international concern, it is only now beginning to pull together its far-flung operations to exploit its potentially massive economies of scale to tackle the twin scourges of overcapacity and cut-throat competition confronting its industry.

A special FT report, involving interviews with executives and managers across the company, reveals a corporate drama unfolding on a world scale. It involves personality clashes and multi-billion-dollar product gambles, as a traditionally bureaucratic, inward-looking manufacturer rooted in the Midwest faces up to the profound changes demanded by a new global market.

Like the transformation of IBM more than a decade ago, the upheavals at GM have already revealed serious flaws in strategy and brought countless executive casualties. What is not yet clear is whether the company will manage to reap the benefits of its huge global manufacturing business. Or will GM's very size turn out to be the biggest obstacle to its goal of running common processes around the world?

"Globalisation is a major effort for almost all carmakers," admits Jack Smith, GM's avuncular chairman. "But for GM, in particular, it is a huge undertaking."

Some 35 years ago, GM made half the cars sold in America. Subsidiaries like Chevrolet, Oldsmobile and Cadillac were massive employers in their own right. GM controlled such household names as Vauxhall in the UK and Opel in Germany.

Today, its size is still daunting. In 1997, its 608,000 employees built or assembled 8.8m cars, trucks and buses – almost one in six of all the vehicles made in the world. Even after shedding non-core assets, GM's activities stretch from railway engines to satellite television. With sales of $178bn (£106bn) in 1997, GM's turnover equalled the combined GDP of New Zealand, Portugal and Luxembourg.

But such impressive statistics do not obscure debilitating drift.

- In the US, GM's share of new car sales has slipped from a peak of 50.7 per cent in 1962 to about 30 per cent today, as buyers have defected to smaller, cheaper and more reliable – often Japanese – models.
- Strikes last summer highlighted GM's lagging productivity. The estimated labour cost per vehicle averaged $1,493 at Ford in 1997. At GM, the figure was $2,000. It took GM 30.32 employee hours to make a vehicle, compared with 22.85 at Ford. Japanese producers all came in below 25 hours. And at Nissan's Smyrna plant in Tennessee, the figure was just 16.55 hours.
- In sales and marketing, GM has been hampered by a scrap between rival GM brands, as the powerful barons running the company's main domestic marques concentrated more on competing with each other than developing a co-ordinated strategy to tackle Ford, Chrysler or the growing imports.
- In Europe, GM's second biggest market, share has also been falling steadily. Vauxhall/Opel has lost its crown as Europe's leading car brand in the face of a resurgent Volkswagen and Asian imports.
- Elsewhere in the world, GM has been subject to economic turmoil. Damage in Asia has been limited, but collapsing demand in South America has inflicted greater havoc. GM has cut production and laid off workers in Brazil, the region's largest market, where it is the third biggest brand after VW and Fiat. Output has also been cut in Argentina, Chile and Venezuela, where GM also builds or assembles vehicles.

Will GM's very size turn out to be the biggest obstacle to its goal of running common processes around the world?

These problems have occurred at a time of unprecedented change in GM's industry. Daimler-Benz's takeover of Chrysler has changed the rules for the world's carmakers. Although DaimlerChrysler is half GM's size, the merger has forced every company to reassess its assumptions about optimum size and economies of scale.

The DaimlerChrysler deal also comes at a time of renewed confidence among GM's rivals. Ford is on a roll now that its ambitious global reorganisation plan, unveiled in 1994, is starting to bite. Toyota, the world's third biggest carmaker, is firing on all cylinders, in spite of sagging demand in Asia. In Europe, VW has demonstrated that manufacturing in high-cost Germany is not an automatic obstacle to making money in volume cars.

Whether GM pulls through will largely be dictated by one man – Rick Wagoner, the former head of North American operations. In October, he was promoted to the new job of running the global automotive business, when the group merged its North American and international vehicle operations to form a single worldwide group capable of exploiting its potential economies of scale.

An affable, gangly executive, long tipped for the top, Mr Wagoner conceded late last year that the detail and divisional plans were still being worked out. "We've never tried to run a company this way," he warns.

So far, only fractions of GM are operating to the new global blueprint. Purchasing is the area executives like to cite. GM began the task of combining some 27 largely autonomous units into one global operation as early as 1992.

Today, the division handles $70bn-$80bn of business a year. Multi-billion-dollar purchases are co-ordinated through weekly globe-spanning conference calls. Substantial cost savings have flowed. About half the $4bn GM expects to cut from its costs in 1998 should stem from materials purchasing.

"We are the biggest car company, so if we are buying for all our volume, we have a huge opportunity to reduce our costs," says Mr Smith. "That's been true since 1992, and nothing's changed. But we're not finished with anything we have to do – we've got a long ways to go."

Executives admit that GM still trails its best competitors in some respects. "In the early days, we were really focused on issues surrounding our competitiveness from a cost-saving standpoint," says Tom Fabus, purchasing director for the North American car platforms. "Over time, it's shifted to competitiveness on quality and technology."

Advances have also been made in engines and gearboxes – known as powertrain. Just over a year ago, GM decided to unify its engines and transmission operations – a $13bn business employing about 57,000 people – and split responsibilities worldwide on the basis of expertise. Europe has gained prime responsibility for four cylinder engines and manual transmissions; North America runs larger engines and automatic transmissions; while Isuzu, the Japanese truckmaker in which GM holds a 49 per cent, leads in diesels.

But even in areas such as purchasing and powertrain – already well ahead of the rest of GM – the time-scales for change are daunting. Arv Mueller, the GM veteran running powertrain, says it will take at least five years before the powertrain plans are fully implemented.

The pace is largely dictated by the time it takes to develop new cars, and hence replace investment. "There really isn't a finish-line," says Mr Mueller, "but I guess we're probably a third of the way to where I would want to be."

The sheer size of GM's operations does not help. It has taken powertrain alone the best part of a year to consolidate budgets from scattered units. Only this year will the group have its first global budget.

Much the same applies in manufacturing. Over the past couple of years, GM has centralised responsibilities to ensure all new investments in body shops, dies or full plants are made to common specifications. The aim is to improve manufacturing flexibility and allow production to be shifted around more easily.

But achieving such commonality will take years. "We're turning over programmes every four to five years," says Tom LaSorda, a manufacturing vice-president. "So in four years, a single-model plant should be common with everybody else. [But] for a plant that has four or five models, its cycles might be a little longer."

Mr Smith admits the speed of change "is basically determined by how fast we can develop new product. It's a huge focus for us. Our average time to develop a car, just a couple of years ago, was over 40 months. Today, all our new programmes are aimed at 24 months . . . and that's not good enough, because some other companies are starting to work on 18-month cars."

His over-riding goal of "running common" should eventually bring greater flexibility and allow GM to capitalise on its prodigious economies of scale. But greater harmonisation will not solve the yawning cultural and management problems which have become evident in recent months, especially in Europe.

The team to kick-start the vehicle-making juggernaut: Rick Wagoner (left), in charge of the global automotive business, and Jack Smith, chairman. AP
Below left, tail fin of a 1959 Cadillac Eldorado Biarritz, and, below right, rear wing of the new Cadillac Evoq Roadster

Many of the frictions stem from the ingrained Midwestern focus of GM's top executives – including the handful, like Mr Smith and Mr Wagoner, who have served in senior positions abroad.

Such cultural clashes, which GM must overcome if it is ever to achieve its global ambitions, lay behind a string of high level resignations in recent years, such as the June 1996 departure of Jürgen Stockmar, Opel's head of product development, at the apparent redirection of Opel's scarce resources from European to global cars.

Other changes, notably last October's return of Gary Cowger, Opel's chairman, to the US after only four months in the job, betrayed similar insensitivities on the part of GM's Detroit bosses. Mr Cowger's move caused an uproar in Germany, where it seemed to confirm fears that GM was insensitive to its German subsidiary and European needs.

Such sensitivities have not been soothed by GM's decision to turn to Bob Hendry, a veteran fixer and close associate of Mr Smith's, as Opel's new boss. Mr Hendry already has his hands full running Saab, the Swedish carmaker in which GM has a 50 per cent stake and management control.

GM says more resources will be devoted to Europe to smooth troubled feelings. "I think that the problems vis-à-vis Opel arose from what was viewed as a stretching of resources to support some of the globalisation issues. The fact is that most of those [international] projects are up and running, and frankly have been turned over to [local management]," says Mr Wagoner.

New models are another part of GM's hoped-for solution. Mike Burns, the new chairman of GM Europe, admits to poor quality, profits and morale in the past. Quality, for example, is, "clearly an area where we've got to do things. This business is capable of operating at a level better than in recent years."

That will be a tall order in a viciously overcrowded market in which every carmaker hopes to overcome its overcapacity problems at the expense of other brands. GM's problems will be compounded by Mr Hendry's dual responsibilities. Some analysts fear he could be distracted from seeing through Saab's long forecast turnround. Since spending $600m to buy into Saab in 1989, GM has struggled to restore profitability.

'We are the biggest car company, so if we are buying for all our volume, we have a huge opportunity to reduce our costs'

Mr Wagoner admits management succession in Europe has been flawed. "We've developed some excellent management teams [outside the US], but succession planning has not been as strong as it should be. We need to make sure we work at giving foreign nationals opportunities to develop careers globally."

One positive signal of a cultural shift in the company's senior ranks, still dominated by North American veterans and noticeably less diverse than at Ford, was the appointment just before Christmas of Cynthia Trudell to run Saturn, the small-car subsidiary set up in the 1980s to take on the Japanese.

A feisty 45-year-old Canadian who has climbed the ranks through the production side, she combines the technical expertise, management skills and international experience which will become paramount for GM in future. Mrs Trudell will be the first woman to run an entire car division in the US auto industry.

She admits GM used to be bureaucratised. "But I don't see the level of bureaucracy I used to see in the past," she says. "There's less tolerance for that at the top."

In another encouraging sign of change, GM will from this year recruit as one company, instead of separate divisions. Common managerial priorities have been stated and training initiatives organised, at least in part to emphasis corporate goals and encourage intermingling of people from different functional divisions. "A strong piece is the leaders' teaching," remarks Katy Barclay, head of human resources, pointing out that Mr Smith himself now teaches a seminar on "chairing GM". But, here too, progress will only come over time.

If Europe is calling for remedial action, Asia is pulling even harder. "That's where the growth is going to come from long-term," says Mr Smith.

"Basically, we wanted to get to a 10 per cent market share in Asia over a 10-year time frame. Today, I guess the Asian crisis has changed our thinking. A couple of years ago, it didn't seem possible to acquire anyone in Asia . . . but today things are different. There are many companies in trouble, and now there's excess capacity. Going forward, we would consider acquisitions that made sense to us".

Before that, GM still needs to sort out its own US backyard. Immediately after last summer's strike, it took a first, crucial step to consolidate the formerly independent divisional sales and marketing operations of its main North American subsidiaries, cutting 15-20 per cent of the 5,100 jobs. Small teams of a few dozen people would remain to support advertising for the brands. But, aside from them, there would be a single sales, service and parts field force, saving an estimated $200m-$300m a year.

The changes marked the culmination of a campaign plotted over the past four years by Ron Zarrella, former president of the Bausch & Lomb eyewear group and a marketing whiz hired to instil greater focus into a chronically blurred operation.

As Mickey DiGiovonni, GM's chief market researcher, puts it: "In the early 1990s, we had too many products and far too many that were competing against each other". Over the past five years, the number has fallen from 108 to about 77, although any further reduction is now likely to be modest.

But even if the product portfolio has been rationalised and better targeted, some commentators have wondered why GM still needs six brands [including Saturn]. "We believe that multiple brands are our strength," says Mr DiGiovonni.

"Up to this point, we've concentrated on blocking and tackling. We had to get our portfolio back on its feet. We think that process is working. Now we're trying to shift and we've got to get into long-term innovation."

Still, Mr DiGiovonni concedes there may yet be "re-evaluations" down the road. "We all agree Oldsmobile has a big challenge to rebuild its brand name. But there's no reason why it shouldn't be as successful as what happened to Pontiac in the early 80s. But if bad things were to happen, we'd be flexible."

Critically, as part of the effort to keep consumers engaged, GM has started developing cars more quickly. Mr Smith says the group will launch a product every 28 days from now until the middle of the next decade.

The key question remains, though. Why, after all the work which has been done, hasn't GM's North American market share recovered? Mr DiGiovonni maintains this is because the process is still fairly new; only 22 per cent of the portfolio has been turned over to date, mostly in the past two years. Another 45 per cent will be reinvigorated in the next 18 months.

'With the strikes, we lost a lot of momentum. I think that the impact has been far greater than you can calculate financially'

Some dealers have argued that GM needs to become more adventurous. The company must "be willing to take risks", said Paul Holloway, 1998 head of the National Automobile Dealers Association, and could use "a good car guy" to develop hotter products. Significantly, Jac Nasser and Ferdinand Piëch, precisely such people, have been widely credited with reviving Ford and VW.

Mr Wagoner sees the issue differently: "We think market share can go up – but with the strikes, we lost a lot of momentum. If you talk to the dealers, it's stop and start. They don't know if they should make a deal to move a product . . . I really think that's hurt our distribution system's ability to plan. It's hurt our start-up on a number of models. I think that the impact has been far greater than you can calculate financially."

This leads directly to the labour issue, one of GM's biggest remaining bugbears. When the strikes ended last summer, GM appeared to have achieved relatively little for the $2bn-plus direct cost, beyond a general pledge on the United Auto Workers' part that, together with the company, it would try to work more co-operatively in the future.

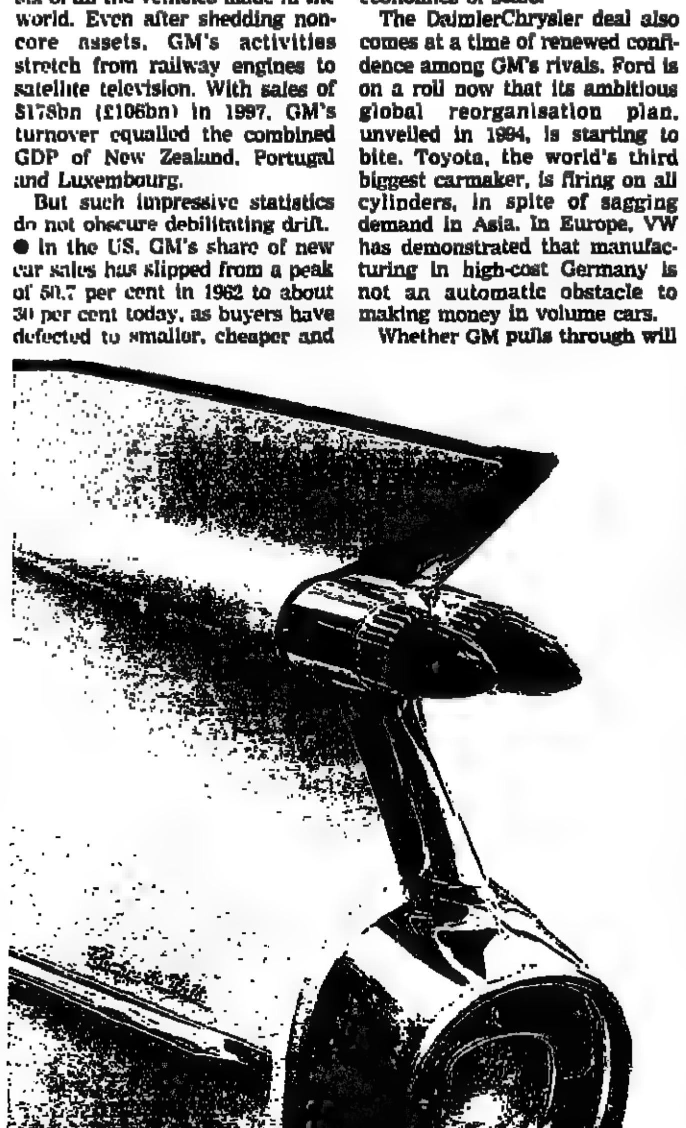
Since then, there have been some encouraging signs. Richard Shoemaker, the senior UAW official in charge of GM relations, has made presentations to the senior North American managerial group – a once unheard-of approach. A potential strike at Saturn was defused last autumn. Mr Cowger's appointment has been generally welcomed on the labour side. Still, with the need for a new national agreement this year, progress is tentative and no one is keen to say too much.

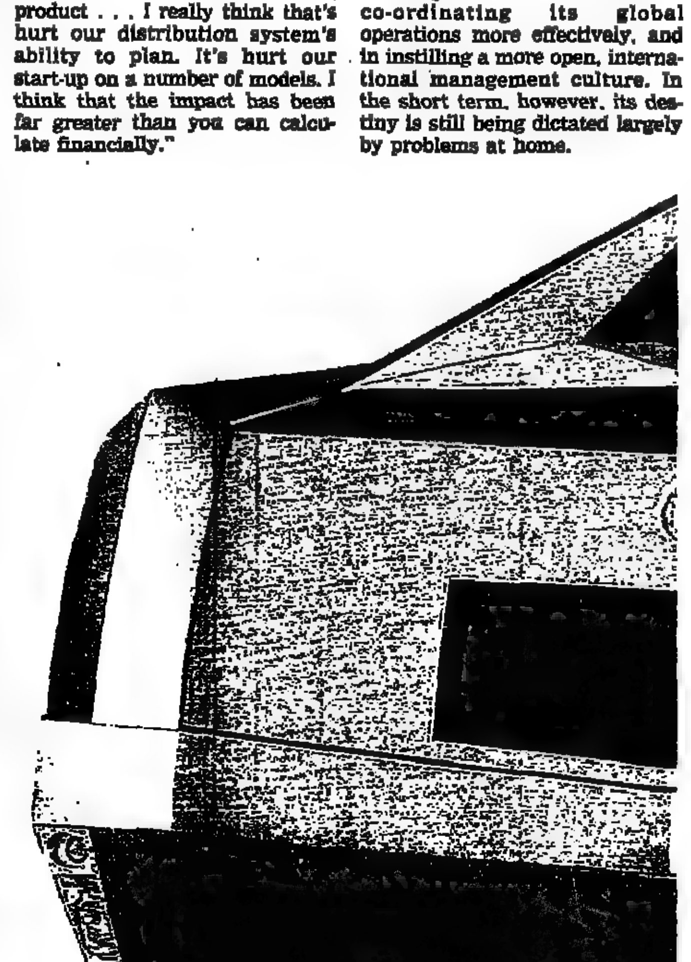
Mr Smith, meanwhile, is adamant GM can use natural wastage to trim its head count without provoking further disputes. The relatively advanced age of GM's US workers – an average 48 – means numbers are declining by about 6 per cent a year. "We can get to where we want to through attrition," he argues.

"If you're asking: Could it be done faster? Perhaps. But by and large, the trade-off is, do you want to create labour conflict when you have such a high attrition rate anyway? Why have a battle when we don't need one? Labour is only 20 per cent of our cost. The key driver is purchased material, which is over 50 per cent. That is where we drive hardest."

But that is only partly true. GM can point to impressive achievements in co-ordinating its massive purchasing budget and creating common processes. But last summer's strike rammed home the fact that the group cannot begin to achieve its global aims until it has greater stability in its labour relations at home.

Much of the mid- to long-term challenge for GM will remain in co-ordinating its global operations more effectively, and in instilling a more open, international management culture. In the short term, however, its destiny is still being dictated largely by problems at home.





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DISTRIBUTION VENTURE CAPITALIST POISED TO BUY CANTRELL & COCHRANE IN DEAL VALUED AT $800M

Allied Domecq to sell Irish drinks unit

By Charles Pretzlik

Allied Domecq, the UK spirits and pubs group, is poised to sell Cantrell & Cochrane, its Irish drinks distributor, for more than £500m ($800m) to BC Partners, the venture capital firm.

Cantrell was widely expected to be floated off, but Allied is understood to have decided a sale would be quicker and simpler than a flotation and that it would achieve a better price.

Allied has been looking to dispose of the business since buying the 49.6 per cent stake it did not already own from Diageo in July.

However, it does not consider the business, which distributes mostly soft drinks and beer, to be part of its core spirits operations, with brands like Beefeater gin and Tia Maria liqueur.

BC Partners is believed to have offered about £530m, although contracts have not yet been exchanged. A deal is expected to be announced later this month.

It would represent a big bite for BC Partners. Last year the firm paid £360m for Hurst Publishing, whose titles include Auto Trader, and last month it bought Ross Breeders, the poultry breeding division of Hillsdown Holdings, for £100.5m.

The sale of Cantrell is part of an attempt by Allied's chief executive, Tony Hales, to focus on core operations.

Last year Allied merged its Victoria Wine off-licence chain with Whitbread's rival Thresher chain, and analysts believe Allied will review the future of its other retail businesses, which include over 2,000 pubs, the Dunkin' Donuts chain and Baskin Robbins ice cream.

Allied has held talks with Seagram, the Canadian drinks and entertainment group, in an effort to strengthen its spirits business. However, the talks, which covered such options as joint ventures and a merger, ended late last year.

Allied is expected to make a profit on the sale of Cantrell. It has never disclosed how much it paid Guinness for its Cantrell stake but analysts put the figure at just under £230m.

Diageo was forced to reduce its interests in the Irish drinks distribution sector as a condition for obtaining approval from the European Commission for the merger between Guinness and Grand Metropolitan to form the food and drinks group.

Regions can continue to brew up an independent spirit

Despite recent closures and consolidation **David Blackwell** finds optimism among some of the country's smaller brewers

Lovers of real ale should not feel too downhearted over the loss of two more regional breweries last year, according to the Campaign for Real Ale.

"No one can build up a theory that regional brewing is in decline on the basis of those closures," argues Roger Protz of Camra. He highlights the continuing success of two brewers – Greene King of Bury St Edmunds in Suffolk and Fuller, Smith and Turner in London – as proof that a good brewery with good brands and good pubs can buck the trends in a declining beer market.

The two breweries that closed were Morrells, the Oxford family company that provided TV's Inspector Morse with his favourite tipple, and the Langham home in Rutland of Ruddles, which was in the vanguard of the 1970s real ale revolution.

Morrells, which until July had been run by six generations of the same family, was bought by a new company mainly owned by Michael Cannon through an investment company. Mr Cannon, who now lives in the US, has made a fortune from pub companies in the UK, including Magic Pub and The Ambishus Pub Company.

The board had decided to put the business up for sale after a strategic review by PwC. As a result Margie Eld, 76, became the last member of the family to serve the group, quitting the board at the end of June after 54 years. She said at the time that her side of the family, which has 33 per cent of the shares, had failed in two attempts to buy the remaining equity, mostly owned by four Morrells family trusts.

The new owners said the brewery was unviable, while the chain of 132 mainly tenanted pubs, which would keep the Morrells name, had suffered from a lack of investment. The beer brands might be retained, but would be brewed elsewhere.

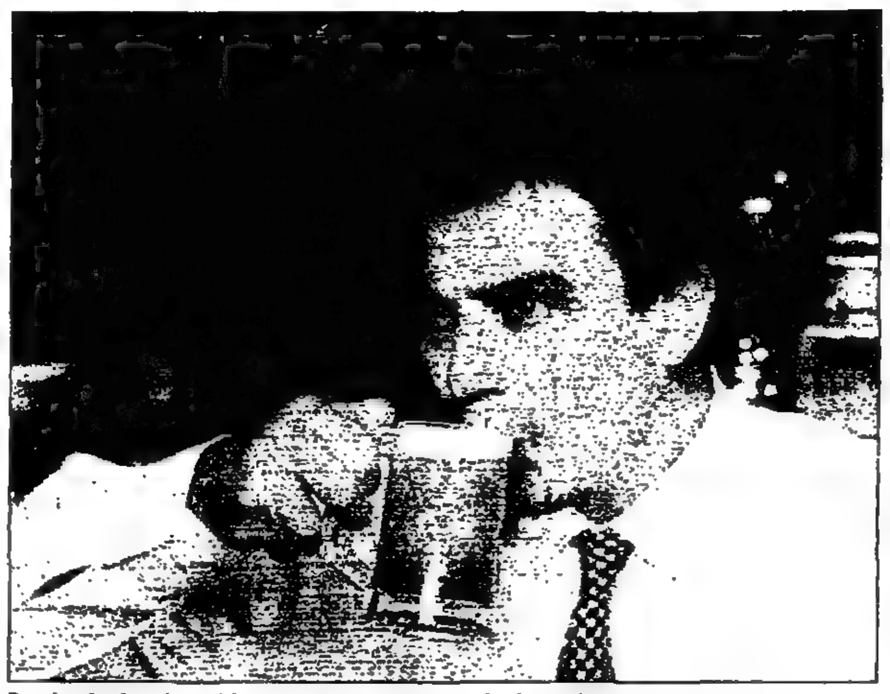
Morland, the Thames Valley brewer best known for Old Speckled Hen, bought the Langham brewery at the end of 1997 along with the Ruddles brand name. After failing to find any brewing contracts, it announced the closure in April, at the same time that Whitbread put up for sale its breweries at Cheltenham, producer of Flowers, and at Castle Eden, County Durham, the producer of Castle Eden ale since 1826.

Mike Watts, chief executive at Morland, rejected any suggestion that too little time had been devoted to finding a brewing alternative for Langham. "We spoke to all the major brewers and several brands, and I have been taking it in the neck for six months from the City, which was asking why we had kept it open," he said at the time.

However, Camra maintains that neither the Langham nor Morrells closures were necessary. "The decisions had nothing to do with their decline or failure as breweries," Mr Protz maintains. And he continues to believe that the regionals can prosper if they concentrate their effort on cask ales and do not try to imitate the big national groups.

Cask ales have had their ups and downs since the 1960s, he explains, first falling against carbonated keg beers, then against lagers, and most recently against nitro-keg beers. "But there is a big underlying support for cask ale, and beer drinkers will always go back to it."

Such words are music to the ears of David Soley, the Durham businessman who stepped in to save Castle Eden by buying it from Whitbread for £3m. The brewery, which is in the constituency of Tony Blair, the prime minister, will benefit from a grant of £150,000 from the Department of Trade and Industry. But while the regional brewers will all be hoping for a prosperous and happy New Year, as they stare into the bottom of their glasses, the outlook remains unsettled.



Premier ale: the prime minister's constituency includes the Castle Eden brewery in Durham

In the north-east of England, Sunderland beer drinkers will be cheering on a management buy-out bid for the two breweries owned by Vaux, which has put them up for sale following a decision to concentrate on its hotel and leisure interests. Sir Paul Nicholson, the non-executive chairman whose younger brother, Frank, is leading the bid, made it clear last month that he wants to keep the breweries open – unless it can be convincingly demonstrated that not to do so will raise many millions of pounds more.

Meanwhile, if Wolverhampton & Dudley were to succeed in its £264m hostile bid for Marston, Thompson & Evershed, the combined Midlands group would have three breweries. Cynics would be entitled to ask – for how long?

NEWS DIGEST

CHARTERED SURVEYING

Strutt & Parker buys hotel and leisure rival

Strutt & Parker, the UK chartered surveyor, has acquired William Hillary Leisure and Hotels, a smaller rival specialising in hotel and leisure property.

Roger Pryor, a partner of Strutt & Parker, said: "This will provide valuable expansion to the services we can offer our clients and confirms our confidence in what we perceive to be a growth area of the property market." About half Strutt & Parker's business is commercial, with the balance in the rural market.

Founded 114 years ago, it employs 500 staff and has 30 partners. William Hillary, which has been in business for 18 years, has five employees working in its London and Salisbury offices.

The move underscores the trend for consolidation among chartered surveyors. Last year Jones Lang Wootton merged with LaSalle Partners of the US; Healey & Baker agreed to merge with Cushman Wakefield of the US; and CB Richard Ellis acquired Hillier Parker. CB Richard Ellis was formed by last year's acquisition of Richard Ellis by CB Commercial of the US. **Charles Pretzlik**

MEDIA

Kirch restructures

Kirch, the privately-held German broadcasting group, is expected today to unveil details of a wide-ranging reorganisation that could pave the way for outside investors to join as partners in its media activities.

Kirch, which was founded by Leo Kirch, has been under pressure because of its investments in digital pay-TV, which have cost DM1bn (£300m).

Today's announcement is expected to concentrate on reorganisation measures – including the setting up of three holding companies – rather than possible future partners. But the group has in the past held talks with Silvio Berlusconi, the Italian media magnate, Rupert Murdoch's News Corporation and the Saudi Prince Al Waleed.
Ralph Atkins, Bonn

HOUSEHOLD GOODS

Tomkinsons trading optimism

Tomkinsons, the UK floor covering manufacturer and supplier, said that trading in November and December was better than it had expected. Its optimism contrasted with gloomy comments from other home furnishing companies, but was consonant with an upbeat trading statement a week before Christmas from CarpetRight, the retailer headed by Lord Harris of Peckham.

Michael Hield, chief executive of Tomkinsons, said the good trading was the result of the group's strategy over 15 years of focusing on small independent retailers for distribution and relying on colour, design and creativity to sell its products. The small retailers tended to try harder when markets got tougher, he said.

"We've got 2 per cent of the total £1.6bn UK floor coverings market, and in such a fragmented area it's always possible to move up a bit," said Mr Hield.

In November, the group announced a 17 per cent rise in pre-tax profits to £2.01m on sales of £30.5m. Williams de Broë, the house broker, is forecasting profits of £2.1m this year. **David Blackwell**

BANKING

BLG lifts Hungarian stake

Bayerische Landesbank Girozentrale has bought the 7.98 per cent stake in the Hungarian Foreign Trade Bank (MKB) formerly owned by DEG, the German investment and development concern. The sale – announced last week for an undisclosed sum – brings BLG's total stake to almost 75 per cent.

MKB is Hungary's second largest commercial bank and had consolidated assets of Ft 530bn ($2.45bn) in mid-1998. BLG and the European Bank of Reconstruction and Development (EBRD) acquired a minority stake of MKB in the first privatisation of Hungary's larger state banks in 1994.

The EBRD is expected to sell its 16.7 per cent stake, possibly in conjunction with a public offering and listing of MKB on the Budapest Stock Exchange.
Kester Eddy, Budapest

HOUSEBUILDING

Bid to oust Tay directors

A rebel shareholder in Tay Homes, the Leeds-based housebuilder, is today expected to call an extraordinary meeting to replace four directors with its own nominees.

Sunley Family, which has a 10.1 per cent stake, is angry at the 20 per cent drop in Tay's share price last year.

It will try to oust Norman Stubbs, chairman, and John Swanson, chief executive, as well as two other directors, Stephen Evans and Jack Green.

Sunley will seek the appointment Peter Hedges, a former deputy chairman of Taylor Woodrow, and Richard Tice, joint chief executive of the Sunley Group, an unquoted property development and housebuilding group. Mr Tice would run Sunley and Tay side-by-side but would not merge the two.

The decision to call an egm comes after Tay last month rejected Sunley's demands for a seat on the board and further management changes.

Tay's largest shareholder, Phillips & Drew, which has a 15 per cent stake, has undertaken to vote in favour of Sunley's resolutions. Other leading shareholders are Fidelity, with about 10 per cent, and Foreign & Colonial, with about 7 per cent. **Charles Pretzlik**

ENGINEERING

Renold offer 'unconditional'

£5.14m recommended offer by Renold, the engineering group, for Jones & Shipman, a maker of abrasive machine tools, has been declared unconditional. Renold said that shareholders representing 60.7 per cent of the equity had accepted the offer, which valued Jones' shares at 20p each. Schroders acted for Renold.

NEWS DIGEST

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utt & Parker buys el and leisure rival

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to oust Tay directors

old offer 'unconditional'

France plans bond market reforms

By Samer Iskandar in Paris

France is to modernise its bond markets this year to make them more attractive to borrowers and investors following this week's successful launch of the euro.

Individual investors from all euro-zone countries will be able to buy inflation-linked government bonds as part of the reforms. These instruments, introduced last year, were accessible only to institutional investors such as insurance companies and pension funds.

The finance ministry is also reforming the commercial paper and medium-term note markets, in which companies raise funds for short and medium-term durations of between one month and five years.

The new legislation, which was published yesterday in the government's official journal, aims to "combine flexibility and efficiency in the market, and a high degree of transparency for investors", the ministry said.

France has introduced a series of reforms in recent years to increase the attractiveness of its financial markets ahead of the launch of the euro. Paris has been in competition with Frankfurt to become the euro-zone's dominant financial centre.

Although Germany has the advantages of playing host to the European Central Bank and having larger and deeper financial markets, France has been faster in implementing reforms, financial analysts say.

Financial institutions, whose borrowings were subject to specific regulation, will be allowed to issue certificates of deposit (CDs), one of the most flexible instruments used by companies to raise short-term funds. Issuance of medium-term notes paying a variable-rate coupon will also be allowed.

Other measures include opening the market to foreign banks, which will be able to issue CDs denominated in euros as well as foreign currencies. This should make the French market "open and competitive, and will reduce financing costs for companies", the government said.

Some €6bn ($7bn) of inflation-linked government bonds will be issued this year, as part of the treasury's €80bn borrowing programme. Borrowing is down 14 per cent from last year's €93bn, mainly due to reduction of the budget deficit.

Issuance will consist of roughly €45bn of OATs – bonds with maturities of seven to 30 years – and €35bn of two and five-year BTANs, with the average maturity of outstanding debt remaining within the target range of 6 to 6.5 years.

The treasury also said its cost of borrowing had fallen in 1998, to 4.07 per cent on BTANs, from 4.38 per cent a year earlier.

DLJ to launch euro-zone trading

By Clay Harris, Banking Correspondent

Donaldson, Lufkin & Jenrette, the US investment bank, is today set to launch its euro-zone equities business, coinciding with the first trading day of the single currency.

The opening of trading, which also applies to Hong Kong-based business for Asia excluding Japan, marks the end of the first phase of expansion into non-US equities by DLJ, a bank indirectly controlled by Axa, the French insurer.

It underlines DLJ's conviction that it can differentiate itself in a crowded market. Hector Sants, head of international equities, said: "Investors still don't have the global and regional research services to meet all their needs. This is very much going to be a stock idea-driven product."

As such, it contrasts with the emphasis on a quantitative approach by the other significant debutante in the sector, Germany's Commerzbank Global Equities.

Mr Sants said he expected large institutional investors increasingly to undertake their own quantitative and macro-economic research. He added: "People will always be looking for good stock ideas."

DLJ will be building on its position as the leading seller of US equities into Europe. All international equities staff will report to Mr Sants in London, but will work in co-operation with their sectoral counterparts in the US.

Since March 1998, when Mr Sants' appointment was announced, DLJ's international equities staff has grown from 10 New York-based employees to a total of 220 in London, New York and Hong Kong.

Mr Sants, head of equities at Union Bank of Switzerland in London before its merger with Swiss Bank Corporation, joined in September. The number of research staff is expected to rise from 50 to 75 in 1999.

"Clearly, we're very happy to have missed the period of market turbulence," he said, not just in trading terms, but also because it had helped in recruitment.

As in Europe, Asian research will be regionally based. After today's openings, which add to DLJ's activities in other emerging markets and Europe outside the euro-zone, Japan is its only significant gap.

"Ultimately we do believe we have to include Japanese securities in our product range," Mr Sants said, but added that this would not happen in 1999.

EMERGING MARKETS THE SANTIAGO BOLSA HAS SUFFERED ITS WORST PERIOD SINCE 1981

Year to forget for Chile's investors

By Mark Mulligan in Santiago

The detention in London in October of General Augusto Pinochet, the former Chilean dictator, may have set shockwaves reverberating through the capital's presidential palace, but they didn't quite make it around the corner to the Santiago stock exchange.

While the news from London was sparking riots and demonstrations in the streets and opening dangerous fissures in the delicately balanced coalition government, the main IPSA index of Chile's leading 40 stocks was trying to take heart from developments in the US, where the IMF was hammering out details of its $41bn rescue package for Brazil, Latin America's most important economy.

A week after the Pinochet detention, the index had added 2.83 per cent to earlier rises on the back of central bank interest rate cuts and was on course for a 9.56 per cent improvement for the month.

The market continued to climb throughout November, but no amount of good news could prevent what has proved the worst year on the Santiago Bolsa since the global recession of 1981.

The benchmark IPSA index closed on Wednesday, the last day of trading, at 77.37, down more than 26 per cent on the year, although showing promising gains on its September low of 54.55 points.

More telling was the volume, which at about $12m a day was 38 per cent below that in 1997 and the lowest figure since 1998.

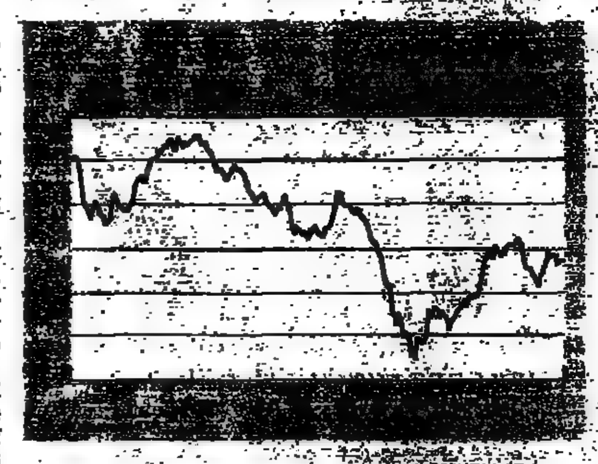
The picture throughout Latin America was similar, reflecting this year's stampede out of high-risk emerging market shares and into fixed-rate securities.

One local broker summed it up: "The IPSA rose slightly on the last day of trading, but so what? Its 1998 performance was awful."

Other market commentators noted that Santiago's performance, among the worst in the region, served once again to expose structural weaknesses in the market, which is heavily regulated and taxed and unattractive to foreign investors, who prefer the more liquid and less-restricted Chilean ADRs traded in New York.

Reforms, including the virtual elimination of the *encaje*, or lock-in, which requires foreigners to leave a percentage of all investment on deposit for a year, are expected to loosen the market.

However, this year's relaxation of the percentage of funds the country's $31bn private pension system can invest abroad has begun to suck liquidity in the other direction.



There were very few star performers on the Bolsa in 1998, with only 11 of the country's 82 listed companies posting year-on-year gains. The decision by Enersis, the electricity distributor 32 per cent owned by Spain's Endesa, to sell its 25 per cent stake in Endesa Chile, the country's biggest generator, provided a distraction in the second half of December.

Given the company's heavy weighting in the index, trading activity around the sale probably saved the IPSA from total humiliation. However, the drama was not enough to pull back the heavy losses the shares suffered earlier in the year.

Market darling CTC, the telecommunications group, added 5? per cent to its year low in September, but ended 1998 with 25 per cent of its market capitalisation wiped out.

Local financial newspapers described it as the year to forget, but the news is not all bad, according to some market watchers.

Leonardo Suárez, economist at Larrain Vial, Chile's biggest broker, says investors should focus more on the IPSA's upward trend in the final quarter, which, he predicts, will continue throughout the first half of next year.

The Central Bank has eased Chile's base interest rates four times since October in response to a sharp fall in domestic demand – 9.7 per cent year-on-year in the third quarter – which has helped Chile adjust its current account and trade deficits.

This domestic contraction helped offset the effects of the collapse in the price of copper, Chile's principal export.

Annual inflation is expected to be less than 5 per cent, against 6 per cent at the end of 1997, and the value of the peso against the US dollar had weakened from 436.5 in December last year to 473.5 last week.

In short, events in Asia, Russia and Brazil have assisted the bank and the government in their efforts to bring spending into line with growth, keep a lid on inflation and hold the peso at more exporter-friendly levels.

And the Pinochet factor? "In the short term, it's not affecting anything," said Mr Suárez. "However, if it goes on for another year in London, in the long term, some government projects could be deferred."

A deepening of the political crisis sparked by the detention of General Pinochet could delay legislation to facilitate the sale of a further four sanitation companies, as well as interrupt plans for the privatisation of the country's ports.

"This could be bad news, because the market has already accepted that they're going to do it," said Mr Suárez.

Chinese banks may form bad loan units

Some of China's state-owned commercial banks may create special institutions to take on loans that have gone bad, AP Dow-Jones reports from Beijing.

The China Daily Business Weekly said China Construction Bank, one of four government-backed commercial banks, was establishing a separate arm to assume non-performing assets.

No other details were provided, but the paper said Beijing supported such moves and other banks were expected to follow suit.

However, an official with the China Construction Bank said it was still uncertain how the institution would handle bad loans.

The People's Bank of China, the central bank, has estimated about 20 per cent of the banking industry's assets can be considered non-performing, yet central bank chief Dai Xianglong has said only about 6 per cent of the loans are unrecoverable.

Officials at the People's Bank of China have said they are considering an institution modelled on the Resolution Trust Corp, which the US government set up to transfer assets of insolvent savings and loan associations to financially sound institutions in the early 1990s.

As China's state banks extend new loans to fuel government spending on infrastructure and construction projects, banking executives are looking for ways to carve out old problem loans.

The recent collapse of Guangdong International Trust & Investment Corp, an arm of the provincial government, brought new calls within the central bank to move quickly towards setting up an institution for bad loans.

EURO TV CREWS WATCH RETAILERS CASH IN

French quick to capitalise on launch of new currency

By Samer Iskandar

French retailers and consumer-oriented industries were quick off the mark this weekend in an attempt to capitalise on the euro as a marketing tool.

Michel-Edouard Leclerc, joint chairman of the E. Leclerc supermarket chain, was surrounded by television cameras when he paid in euros for groceries at one of the group's stores near Paris, on Saturday morning. By the end of the day, another 46 customers had paid in euros at the supermarket, accounting for only 0.5 per cent of sales. The average shopper bought €64 ($75) worth of goods.

However, Mr Leclerc said a large number of shoppers were asking questions about how the transactions in euros would affect their bank accounts in francs.

TV crews and other journalists were also present at the music and book retailer Virgin Megastore on the Champs-Elysées, the tourist district in west Paris, when Yves-Thibault de Silguy, European monetary affairs commissioner, paid €141.94 by cheque for a few CDs. Virgin said some 20 customers had paid in euros that day, including tourists from countries outside the euro-zone.

Some very dedicated TV camera crews were also present just after midnight on January 1 at a Bistrot Romain restaurant, where a customer made a €298.80 debit card payment for a meal, which Banque Nationale de Paris, the bank that had issued the card, claims was France's first transaction in the new currency.

Other retailers expressed disappointment after seeing no interest from customers wanting to pay in euros.

At a Continent store, part of the Promodès supermarket chain, cashiers waited in vain all day Saturday to receive a euro-denominated payment.

"We were a bit disappointed to see that nobody wanted to pay in the new currency," said a director of the group, which has equipped its stores to handle cheques, debit and credit cards in euros.

Mr Leclerc predicted that use of the euro would rise "slowly and progressively", especially near the country's borders, where inhabitants are already familiar with cross-border shopping. He forecast that between 3 and 4 per cent of Leclerc customers would switch to the euro in coming months.

At FNAC, the cultural goods retailing operation of the Pinault Printemps Redoute group, only two customers paid in euros at one outlet in Paris where a euro pilot project has been set up. But the group reported "numerous enquiries" about payment possibilities.

Even the French post office, which is not usually a publicity-seeker since it retains a monopoly on most of its activities, will this morning start selling its standard FFr3 stamps for first-class mail denominated in euros at €0.46.

Artémis in talks to buy Aoba Life

By Michiyo Nakamoto in Tokyo

Artémis, the holding company of the Printemps retailing group based in France, is in advanced talks to acquire Japan's Aoba Life Insurance, Japanese press reports said yesterday.

Artémis is understood to have offered a purchase price for Aoba of Y40bn to Y50bn ($355m-$443m). If the deal goes through, it would represent another significant foreign entry into Japan's hitherto highly protected life insurance sector.

Last year, GE Capital agreed a deal with Toho Life Insurance that, in effect, places Toho under GE Capital's control. Canada's Manulife Financial has also agreed to acquire the operations of Daihyaku Life Insurance.

The deals represent a significant change in the market environment for Japanese life insurance companies, which had until recently operated in a market that was virtually free of foreign competition.

In addition to strict market regulations, the close historical ties life insurance companies enjoyed with their large corporate customers and the high investment needed to compete with the large salesforces of Japanese life insurance companies – which employ thousands of life insurance "sales ladies" – impeded foreign competition in the Japanese market.

Foreign companies had made inroads mainly in lucrative but relatively small niche markets, such as the market for cancer insurance, which had been underdeveloped in Japan.

However, growing market liberalisation introduced under foreign pressure and the strengthening presence of foreign life insurance companies has put pressure on the weaker Japanese life insurance companies.

Aoba, for example, was set up by Japan's life insurance association companies to take over the operations of Nissan Life Insurance, which collapsed in 1997.

The life insurance association has been seeking a buyer for Aoba and is expected to make a decision shortly for approval at its board meeting later this month.

INTERVIEW CRAIG MUHLHAUSER SETS OUT HIS AGENDA FOR FORD'S PARTS OFFSHOOT

Visteon chief reshapes its goals

By Haig Simonian, Motor Industry Correspondent

As the new president of Visteon, the world's second biggest automotive supplier, Craig Muhlhauser has already prepared an agenda for his first 100 days.

Mr Muhlhauser, who joined Ford Motor's parts offshoot in July 1997, took over on January 1 from Charlie Szuluk, the Ford executive who oversaw Visteon's change from captivity to partial independence from Ford in September 1997.

Since then, Visteon has blitzed the automotive world with its new name and logo. The change, like a similar metamorphosis at Delphi, the General Motors parts subsidiary trying to become less dependent on its parent, will probably lead to a flotation in 2000. Delphi's own initial public offering is due early next year.

The process of weaning Visteon away from Ford begun under Mr Szuluk should accelerate under Mr Muhlhauser, who joined from a senior marketing role at United Technologies. He is determined to create a "shadow" structure of an independent company at Visteon as soon as possible.

He shares Mr Szuluk's target of reducing Visteon's sales to Ford, once virtually its only customer, to 80 per cent of turnover. Unlike his cautious predecessor, however, Mr Muhlhauser is willing to give a firm date of 2002 for his goal.

That means lifting sales to third parties to about $5bn a year, based on Visteon's estimated turnover of about $25bn by early next century.

Visteon

New contracts beyond Ford are already helping to propel Visteon's turnover from $16.4bn in 1997 to $17.2bn in 1998 and a forecast $18bn in 1999.

Mr Muhlhauser predicts much of the increase will come from Europe. After spending his first year at Visteon creating a marketing structure to underpin its planned sales push, he reckons about $26bn worth of new car contracts will come due in Europe this year.

Winning a disproportionate share of that is the only way Visteon can become less dependent on Ford. "Significantly more than 20 per cent of new business must be from third parties," he says.

Mr Muhlhauser believes Visteon has the potential to meet such targets. This year, only half its $2bn of new business came from Ford, lifting non-Ford sales to nearly 12 per cent of turnover – about double the 6 per cent proportion of 1997.

Mr Muhlhauser's confidence over meeting Visteon's new targets in an industry he admits is "overcrowded" stems partly from the revised corporate structure he has helped to shape.

This has included grafting a worldwide marketing, sales and service network and an expanded advanced technology and processes activity on to Visteon's manufacturing base.

The expanded marketing side will be responsible for marketing, account management and servicing functions that barely existed when Ford was virtually Visteon's only customer. Meanwhile, the reinforced research and development side should provide a competitive edge in technology.

"We were a manufacturer geared to meet Ford's requirements," says Mr Muhlhauser. In particular, he thinks Ford's preference for being a "fast follower", rather than an outright innovator in the industry, meant Visteon put insufficient emphasis on innovation and new technology in the past.

Matters should change with the new structure. "What distinguishes our air conditioners from those of, say, Valeo?" he asks. "In this industry, if you're not out in front, you get run over."

Mr Muhlhauser believes new cars, such as the Ford Focus and Jaguar S Type, will help to promote Visteon's new high-tech products. The Jaguar is the first car to have a voice recognition system for radio, telephone and navigation.

This high-tech emphasis has been underlined by acquisitions. In the past three months, Visteon has bought Zekel Innovation – a US developer of in-car navigation systems – and formed a venture with PI Technology, a UK software and technology specialist.

The overriding goal is to reach the more demanding financial standards required if Visteon is to attract outside investors. Mr Muhlhauser wants to raise sales by at least 7 per cent a year, operating margins to 5 per cent of turnover, and achieve a 10 per cent return on assets.

This means not even Visteon's manufacturing base will be spared from restructuring. That involves obvious steps such as reducing central staff, moving people into the field and thinning out management layers. But manufacturing – notably in Europe – is also in his sights. Mr Muhlhauser notes the location of many Visteon plants next to Ford factories is probably not ideal for a company trying to win more business from third parties.

"Our objective is to have more and more of the financial muscle to take on more of the risk, as vehicle-makers seek to devolve more of their responsibilities to suppliers," he says.

Cellcom plans IPO

Cellcom Ltd, the Israeli cellular phone operator, plans to issue shares in the US in the first quarter of 1999, Reuters reports from Tel Aviv.

Cellcom intends to float shares on Wall Street in an initial public offering that would value the entire company at $3.5bn, the Ha'aretz daily newspaper said. It did not estimate the IPO size.

The offering will be led by Lehman Brothers and Goldman Sachs, Ha'aretz said.

Officials at Cellcom declined to comment on the report. Those at Discount Investment Corp, a member of the Cellcom consortium, could not be reached.

Cellcom, which has about 1m subscribers, is a consortium made up of BellSouth Corp, the Safra banking family of Brazil, and Discount Investment and its sister company PEC Israel Economic Corp.

The company competes with Pelephone, a joint venture between Bezeq Israel Telecom and Motorola Israel.

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MARKETS IN 1998

THE YEAR IN REVIEW

ROLLER-COASTER YEAR

Sentiment shifts to low inflation and low growth

By Philip Coggan, Markets Editor

It was a year when it was pretty hard to sustain the belief that markets are perfectly rational. Volatility increased sharply and investors seemed to undergo at least two 180 degree changes of view of the prospects for economies and corporate profits.

For the developed markets at least, the first half of the year might be dubbed the "Goldilocks phase" and was largely a continuation of the bull run that began in 1995.

The US and European economies were "just right", like Goldilocks' porridge, growing fast enough to generate corporate profits growth but not so fast as to prompt inflation.

The bearish implications of the Asian crisis, which had caused sharp falls in equity prices in the fourth quarter of 1997, were largely forgotten. Indeed, Asia's woes, by applying a brake to the world economy at a time when it might have overheated, were seen as positively beneficial.

During this period, equity markets in the US and Europe reached new all-time highs, with the DAX in Frankfurt and the FTSE 100 in London both passing 6,000 and the Dow Jones Industrial Average reaching the 9,000 mark.

The second phase of the year really started in July when Alan Greenspan, the chairman of the US Federal Reserve, hinted that interest rates might need to rise to head off inflationary pressures.

Shortly afterwards, the roof fell in as the near-default by Russia, talk of President Clinton's impeachment and the near-collapse of the US hedge fund Long-Term Capital Management prompted a massive flight towards safe havens.

Government bonds and equities parted company, with the yields on the former dropping to levels not seen for a generation. Meanwhile, the spread paid by corporates, relative to government debt, increased sharply. Analysts started to talk of a global recession in 1999 and of a financial collapse.

Share prices fell more than 20 per cent in many countries, meeting some definitions of a bear market, and some bourses lost all of their first half gains.

The third phase of the year was again sparked off by the Federal Reserve as it moved to cut rates twice in October, to head off the financial crisis and potential economic slowdown that had loomed large in the early autumn.

Stock markets did another rapid about-face and Wall Street was able to reclaim the all-time highs set in the summer.

European markets recovered the bulk of their losses, but remained off their best, despite a final cut in continental rates to 3 per cent as the 11 single currency countries prepared for the introduction of the euro.

Few observers were entirely convinced by this recovery. Bond markets continued to point to the possibility of global recession in 1999 while the spread of corporate over government bond yields indicated continuing investor nervousness.

In retrospect, the markets spent much of the year coping with the implications of a shift to a low-inflation, low-growth era. That shift may imply a different basis of valuation between equities and bonds, with the latter being relatively uprated now that inflation is defeated and the former downrated because of the danger of a profit squeeze.

Company managements seem to recognise this problem as well – hence the wave of mergers that punctuated the year, a trend which slowed only during the three months of stock market decline. At a time when it is difficult to generate volume growth, mergers offer one route for improving margins – by offering an opportunity to cut costs as well as to eliminate a competitor.

Those mergers will have to be successful in enhancing profits if they are to sustain the global stock market advance since, by the end of the year, they were mainly in the form of all-paper deals; in other words, they were not injecting new cash into the market.

But earning superior returns in 1998 owed much to investors' ability to spot successful companies and the countries where takeover activity would be most active. Finland, where dollar-based investors more than doubled their money, owed much of its success to the performance of Nokia, the telecoms group, which claimed that it became the world's leading supplier of mobile phones. Meanwhile, Belgium, the second best performer of the year, was the centre of much corporate activity, particularly in the financial sector.

The final phase of single currency convergence, which prompted substantial interest rate cuts in previously high rate countries, fuelled the strong rise in Italy, Spain and Ireland.

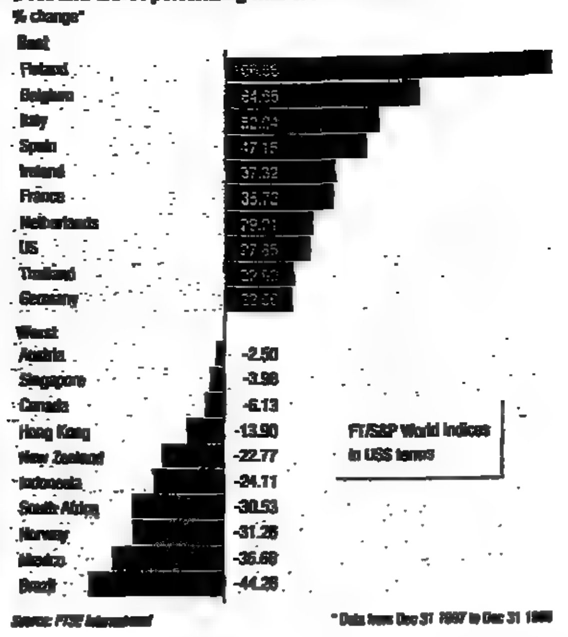
Meanwhile Wall Street, despite a volatile performance, produced a return of more than 20 per cent for the fourth successive year, an amazing bull run.

Among the FT/S&P World Index countries, the losers of the year, as in 1997, were largely in the emerging markets. A last-quarter recovery in Asia (particularly in Thailand, which surprisingly gained nearly 22 per cent) meant that the big declines were concentrated in Latin America. The re-election of President Cardoso and an IMF refinancing package still left investors fairly anxious about the prospects for Brazil (down 44 per cent) while Mexico fell 37 per cent.

Indonesia's poor showing was entirely due to a currency decline – the market actually finished up on the year in rupiah terms.

The problems of emerging market economies have caused developed bourses to wobble twice in recent years – in the autumn of 1997 and in the summer last year – but in each case, they have recovered. The big question for 1999 will be whether Wall Street and Europe face their own economic slowdown. If they do, that might be a rather more difficult hurdle for share prices to surmount.

Best and worst performing markets in 1998



Source: FTSE International

* Data from Dec 31 1997 to Dec 31 1998

EMERGING MARKETS

Investors nurse a global hangover

By Michael Peel

Investors in emerging markets spent 1998 sobering up. Heady thoughts of rapid returns were displaced by a belated realisation that the risks more often than not outweighed the potential rewards.

Some of those who lost out may have ended 1998 nursing a sense of betrayal as well as a headache. A year that started promisingly – with a 6.7 per cent first-quarter rise in the IFC emerging market composite investable index – turned out very badly.

For emerging market fund managers everywhere, the trouble began with the fall of Indonesian President Suharto in May, and intensified over the summer after Russia's default on repayments of interest on its domestic debt.

"The Russia crisis has caused a major contraction in the [emerging market] asset class," says Timothy Love, head of global emerging market strategy at Société Générale European Emerging Markets.

Add to that currency weaknesses, depressed commodity prices and slowing economic growth worldwide, and it is scarcely surprising that emerging markets ended the year in a worse state than they began it.

Despite a fourth-quarter rally, the IFC Composite Index fell 24 per cent in 1998 and underperformed the FT/S&P World Price Index by about one-third in US dollar terms.

But not all markets caused grief. The best IFC index performer was South Korea, which rose 92 per cent in dollar terms over the year, thanks to moves to reform the economy – although the country's chaebol industrial groups still have a long way to go to restructure.

Greece, which is still ranked by the IFC as an emerging market, even though it is due to join the European Monetary Union in 2001, saw the second largest gain – up 83 per cent in dollar terms – thanks to a strong rally after the government spelt out its intention to join the euro-zone.

The worst performer was Russia – hardly surprising, given its economic crisis – where the market fell 83 per cent. Pakistan was the second worst, down 61 per cent, as it grappled to put in place an international economic rescue package.

For some, events last year confirmed that emerging markets are a poor investment *per se*.

A study for the Institute of Chartered Financial Analysts found that between 1975 and 1995 any combination of the IFC Composite index and the S&P 500 index produced lower returns than investing the same amount of money in the US market alone.

Others say that the wariness towards emerging markets, and the resultant lack of liquidity, has created unprecedented opportunities to make easy money.

Even when investors do return in numbers, liquidity is likely to be lower than it was a year ago. Analysts say the steep decline across emerging bourses has put many smaller companies out of business, increasing the dominance of the larger stocks.

Investment managers are increasingly emphasising the importance of making decisions on the basis of stock characteristics as opposed to the perceived strengths and weaknesses of countries and regions.

"Much more effort is going into stock selection," says Christopher Palmer, a global emerging markets principal at Gartmore, the fund management arm of National Westminster Bank.

This is not to say that a study of historic earnings figures is necessarily the best way to evaluate investment potential.

Events in 1998 have shown how economic factors such as currency values and GDP levels can induce stock price variations that a profits-based analysis would fail to predict.

Fourth-quarter International Finance Corporation figures provide a case in point. While the three main geographical regional indices were all higher than at the end of September, Asia climbed 44.9 per cent, compared with a mere 8.8 per cent for Latin America.

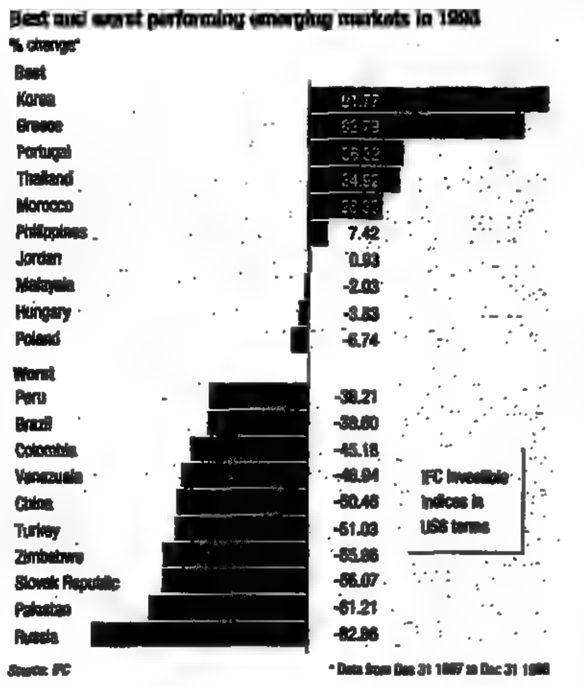
The reason, say most observers, is that economic prospects in Asia are far better – countries in the region are generally moving out of recession and enjoying strengthening currencies.

"Most of the institutional investors I talk to are more positive about Asia than about other emerging markets," says Kenneth King, managing director of King Street Advisors, part of the State Street Global Alliance.

In common with others, though, Mr King says institutions are likely to remain wary of emerging markets for a while. Investors who thought their fortunes would improve after the Asian economic problems of late 1997 have been proved spectacularly wrong.

The lesson of 1998 has been that domestic and relatively localised crises, such as the Russian loan default, can send all emerging markets down *en masse*, regardless of the soundness of individual national economies and corporate sectors.

Best and worst performing emerging markets in 1998



Source: IFC

* Data from Dec 31 1997 to Dec 31 1998

World markets at a glance in 1998

Country	Index	Dec 31 1997	Dec 31 1998	Change	% change
Argentina	General	687.50	430.06	-257.44	-37.45
Australia	All Ordinaries	2616.50	2813.40	196.90	7.53
Austria	ATX	1294.94	1120.77	-174.17	-13.45
Belgium	Bel 20	2418.42	3514.51	1096.09	45.32
Brazil	Bovespa	10,196.00	6784.00	-3412.00	-33.46
Canada	TSE 300	6699.44	6485.94	-213.50	-3.19
Chile	IGPA Gen	4794.41	3594.75	-1199.66	-25.02
China	Shanghai B	55.88	28.71	-27.17	-48.62
Colombia	IBB	1431.67	1109.20	-322.47	-22.52
Czech Republic	PX 50	495.30	394.20	-101.10	-20.41
Denmark	Copenhagen SE	675.98	637.52	-38.46	-5.69
Egypt	Cairo SE	359.85	382.77	22.92	6.37
Finland	Hex General	3302.26	5564.87	2262.61	68.52
France	CAC 40	2998.91	3942.66	943.75	31.47
Germany	DAX	4249.69	5002.39	752.70	17.71
Greece	Athens General	1479.63	2737.55	1257.92	85.02
Hong Kong	Hang Seng	10,722.76	10,048.58	-674.18	-6.29
Hungary	Bux	7999.10	6371.40	-1627.70	-20.35
India	BSE Sensitive	3658.98	3055.41	-603.57	-16.50
Indonesia	Jakarta Composite	401.71	398.04	-3.67	-0.91
Ireland	ISEQ Overall	4053.80	4995.82	942.02	23.24
Israel	TA 100	290.96	299.89	8.93	3.07
Italy	Comit	1053.18	1486.99	433.81	41.19
Japan	Nikkei 225 Average	15,258.74	13,842.17	-1416.57	-9.28
Jordan	Amman SE	168.33	166.79	-1.54	-0.91
Malaysia	KLSE Composite	594.44	586.13	-8.31	-1.40
Mexico	IPC	5229.35	3959.66	-1269.69	-24.28
Morocco	CASA	667.52	803.68	136.16	20.40
Netherlands	CBS All Share	618.80	734.70	115.90	18.73
New Zealand	Cap. 40	2314.91	2064.97	-249.94	-10.80
Nigeria	SE All-Share	6440.51	5680.06	-760.45	-11.81
Norway	Oslo SE	1273.61	924.16	-350.45	-28.65
Pakistan	KSE-100	1735.82	945.24	-790.58	-45.55
Peru	Lima General	1794.16	1335.88	-458.22	-25.54
Philippines	Manila Composite	1869.23	1968.78	99.55	5.32
Poland	Wig	14,668.08	12,795.60	-1872.48	-12.77
Portugal	BVL General	3781.31	4794.71	1013.40	26.80
Russia	RTS	396.86	59.39	-337.47	-85.03
Singapore	Straits Times	1507.65	1392.73	-114.92	-7.62
Slovakia	Sax	182.48	94.0	-88.48	-48.49
South Africa	JSE All-Share	6202.31	5430.48	-771.83	-12.44
South Korea	Korea Composite	376.31	562.46	186.15	49.47
Spain	Madrid SE	632.55	857.80	225.25	37.19
Sri Lanka	SLSE	702.20	597.30	-104.90	-14.94
Sweden	Affarsvarlden	2999.86	3314.57	314.81	10.49
Switzerland	SMI	6265.50	7160.70	895.20	14.29
Taiwan	Weighted	8187.27	6418.43	-1768.84	-21.60
Thailand	Bangkok SET	372.69	355.81	-16.88	-4.53
Turkey	ISE National 100	3451.00	2512.64	-938.36	-27.19
UK	FTSE 100	5135.50	5882.58	747.08	14.55
	FTSE All-Share	2411.00	2673.92	262.92	10.91
US	Dow Jones	7908.25	9181.43	1273.18	16.10
	S&P Composite	970.43	1229.23	258.80	26.67
Venezuela	IBC	8556.04	4763.47	-3792.57	-44.97
Zimbabwe	ZSE Industrial	7007.84	6408.40	-599.44	-8.55
World	FT/S&P World ($ terms)	253.85	307.02	53.16	20.94

Source: Datastream/ICV

COMPANIES

Technology stocks prove to be the star performers

By Jeffrey Brown

Last year's share price performance charts were dominated by technology stocks. Eight of the top 10 shares came from either the telecommunications or information technology related businesses.

Tech shares also walked off with the first five places which, as a piece of sectoral overkill, has had few precedents. Financials and engineers put up a modest fight but, by and large, it was a case of the rest nowhere.

The outright winner in dollar terms, taking the constituents of the FTSE/S&P World index and weeding out market values of less than $3bn, is Italy's Olivetti. The group has been transformed into an aggressive telecoms services provider, capable of returning to profits for 1998 after four years of loss-making. The fact that German telecoms leader Mannesmann has a 10 per cent stake has added extra spice to the shares.

Colt Telecom of the UK exemplifies heightened investor perception. The company has yet to make a profit or pay a dividend. It is growing fast and ploughing returns straight back into the business.

Sales in 1997 were £81m. Broker targets for this year suggest £200m, rising to £700m for 2000. In a sector riven by deals and changing in shape almost daily, the shares have also been supported by takeover premium.

Dell Computer and Apple of the US have ridden up on the internet-led boom for home personal computers where sales growth in Europe of around 30 per cent last year helped soften slowing US volume.

Dell's is essentially a marketing success story with quality products, sold aggressively "off the page" through magazines. Apple owes more to a return to niche market leadership following rejuvenated management.

Telecoms equipment group Nokia, the pride of corporate Finland with a leading global share in the mobile market, managed to retain its stock market status in spite of a worrying wobble in December following a shock profits warning from Swedish rival Ericsson.

EMC is the leader in US data storage where analysts point excitedly to 30 per cent earnings per share growth over the past five years and talk confidently of the trendline being sustained for the forseeable future. Finmeccanica breaks the techs mould, weighing at sixth place on the back of restructuring and boosted by its involvement with the Eurofighter project. The company, 82 per cent owned by the Italian government, is in the process of streamlining its huge debt. Full privatisation is widely expected within three years.

Given that Japan, like most of Asia, did not share in last year's equity boom, NIDEC's position at number seven is a tour de force. The group has a 70 per cent share of the global markets for small-scale computer spindles and a number of very big customers, notably Intel of the US.

National Bank of Greece still carries the scars of its heritage, but is being rapidly remoulded for a role in Greek banking when European monetary union membership comes round in 2001. Even so, a big part of last year's share price momentum stemmed from Greek interest rate convergence.

Creeping in ahead of Dutch insurer Aegon at number 10, Lucent Technologies is seen as one of the better positioned US telecoms producers for the brave new world being opened up by the converging voice and data equipment market.

Among last year's backmarkers, the most visible theme is that six are US companies. Competitive pressures blew up around Healthsouth, a rehabilitation medicine group. Trading strains also hit personal software leader, Peoplesoft.

Deere has had to struggle against farm belt recession. With agricultural commodities vying with livestock to see which can hit fresh lows, Deere's farm equipment business has faced collapsing volumes. Much the same trading patterns beset Baker Hughes' oil equipment operations, given that global oil prices fell to their lowest level for more than a decade.

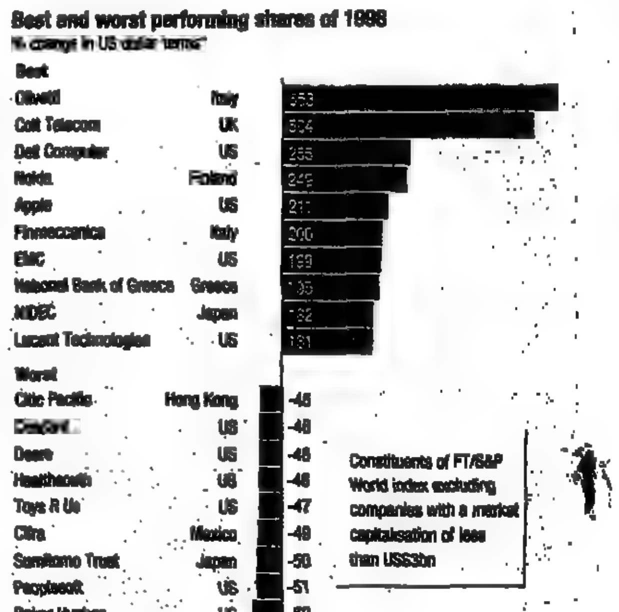
Toys R Us was hit by a lack of blockbuster new products and a radical customer shift in the US away from traditional to electronic toys. Cendant, a direct market and franchising operation, was rocked by an accounting scandal and damaging boardroom battles.

Hampered by regional currency weakness, Latin America could not escape the bottom end of the charts. The Mexican peso lost some 18 per cent against the dollar last year and Cifra, the country's biggest retailer, faced intractable integration headaches after linking up with US giant Wal-Mart which took a controlling stake.

Petrobras had to grapple with a softening Brazilian real, unexpected government payments which dramatically cut third-quarter earnings and the slide of international oil prices.

China's economic difficulties are represented by Citic Pacific, the blueblood among the big Hong Kong-based investment vehicles. A 20 per cent stake in Cathy Pacific has been one of its many problem areas.

Best and worst performing shares of 1998



Source: FTSE International

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BONDS

UK and euro-zone show best returns

By Edward Luce,
Capital Markets Editor

Conservative investors reaped dividends last year with leading western government bonds providing by far the best returns in the global fixed-income market.

UK gilts led the pack, according to Salomon Smith Barney's world government bond index, providing a return of over 20 per cent in dollar terms. However, the UK was followed closely by all 11 euro-zone currencies, yielded returns ranging from 18 per cent to 20 per cent.

The US Treasury market also performed well, yielding almost 10 per cent. But foreign investors in the US Treasury market fared less well owing to the dollar's steep depreciation against the D-Mark and the Japanese yen in the third quarter. It yielded just over 2 per cent in D-Mark terms and minus 1.32 per cent for the yen investor. The index assumes the investor is unhedged.

In contrast, anyone who invested in a basket of emerging market sovereign bonds at the start of the year would have had their fingers burnt. The return on J. P. Morgan's emerging market bond index was in excess of minus 10 per cent. The year was thus characterised by sharp divergence between the performance of the developed western markets and the rest. It was driven by several factors.

First, European government bond yields continued to converge towards the yield on the benchmark 10-year German bund. This accelerated after bilateral currency conversion rates were fixed at the summit of European leaders in May.

Some believed the convergence rally actually overshot with Italian government yields dipping below the German yield at one point before Christmas (for the first time in history). The investor in Italian BTPs made gains last year of almost 20 per cent in dollar terms and over 11 per cent in D-Mark terms. This followed equally impressive returns in the preceding two years.

Second, extreme volatility in global financial markets encouraged investors to seek out the safest havens for their money and this meant either cash or AAA-rated government bonds.

This was most visible in the aftermath of Russia's decision to default on its rouble debt in August but was also accelerated after the near-bankruptcy of Long Term Capital Management in late September. The first and most obvious ports of call were the 30-year US Treasury and the 10-year German government bond. Both saw yields plumb historic lows in late September and early October. Nevertheless other markets, including gilts, also benefited from the panic.

Third, factors unique to various markets, notably UK gilts and Japanese government bonds, helped exaggerate the general performance. In Japan, investors had nowhere else to park their money short of taking on a foreign currency hedge and investing in non-yen assets.

JGBs yielded over 13 per cent in dollar terms but only 2 per cent in domestic terms. This was because much of the rally in the 10-year JGB – which had fallen at one point to a historically low yield of just 0.7 per cent – had started to unravel by the end of the year.

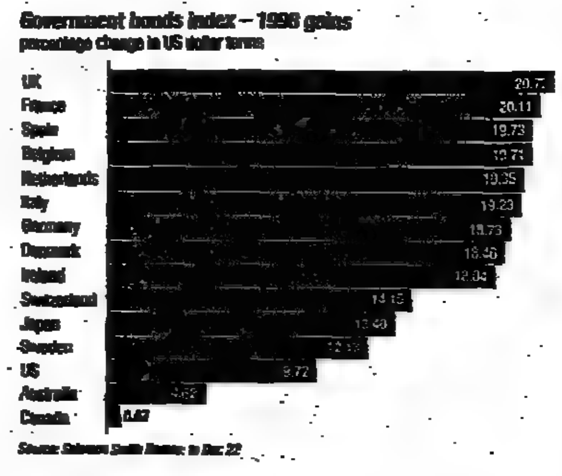
The ministry of finance's announcement that it would be stepping up significantly its issuance calendar over the next few months helped push the yield back up to almost 2 per cent before Christmas on fears of oversupply. In the UK, the spread over German bunds narrowed significantly, although not as impressively as euro-zone bonds.

Investor confidence about the UK's prospects for joining the second wave of European monetary union in the next three years sustained strong foreign investor interest in spite of sterling's volatility.

Last, and perhaps most importantly, all western economies are displaying strong disinflationary tendencies. Core inflation in the euro-zone has fallen below 1 per cent while inflation in the US remains stubbornly subdued in spite of strong monetary growth. This has reduced expectations of long-term inflation and thus had a knock-on effect on long-term interest rates.

Although – Japan apart – there are no clear instances of falling consumer price indices in the leading economies, the possibility of deflation is likely to become a theme soon. And, as every investor knows, talk of deflation is likely to mean ever higher bond prices. The rally in western government bonds is by no means over.

Government bonds index – 1998 gains
percentage change in US dollar terms



Source: Salomon Smith Barney to Dec 22

Russia triggers worst year for debt since 1995

By Khozem Merchant

Russia defined the year for emerging market debt. It was the worst 12 months since the 1995 Mexican crisis and the year ahead could be equally treacherous.

Russia's debt default in August forced a dramatic widening of yield spreads on emerging market debt. Investors retreated and emerging market debt issuance ceased.

The J. P. Morgan emerging market bond index fell 14.5 per cent on the year, to 138.4. Polish sovereign bonds were the best performers, rising 11.7 per cent; Russian bonds slumped 84.9 per cent.

Emerging markets spreads have tightened from a high of 1,700 basis points over US Treasuries in September to about 1,141 at the year-end. This was the result of improved sentiment after interest rates cuts in the US eased fears of a credit contraction.

Jerome Booth at ANZ forecasts a tightening to 600 basis points over US treasuries by the end of 1999.

Two issues caught the eye, both in November: Argentina's $1bn bond, the largest by an emerging market borrower since August; and a $1bn debut bond by Poland's state-owned Telecoms operator TP SA, the largest ever corporate offering from a central European borrower.

Three factors could upset the rosier outlook: a sharp slowdown in Brazil as high interest rates and fiscal belt-tightening begin to hurt; Russia may be forced to renege on external sovereign debt, including its post-1992 eurobonds; and Japan's insipid reforms may continue to hamper recovery in neighbouring economies. Brazil's faltering attempt to enforce its $41.5bn IMF-designed rescue package poses the most immediate danger to the global economy.

In contrast, South Korea has implemented its IMF reforms. It tapped the capital markets earlier this year with a $3bn issue. Malaysia is also seen as a recovery story. Last year it spurned the IMF and slapped capital controls in an effort to win currency stability while it reformed its banking sector.

Poland, insulated from the Russia fall-out, presents the best prospect in eastern Europe as the government prepares the ground for possible Emu entry.

EQUITIES IN 1999

Opinions divided over big investment issues

By Michael Peel

It is telling that one large stockbroker has chosen to illustrate the cover of its investment outlook with the twin masks of tragedy and comedy.

The contrast reflects the divergence in investor opinions about most of the big issues that will determine the direction of the world's stock markets in the year ahead. Market observers can only agree that the state of the US economy and stock markets will be hugely influential.

Points of contention include the ability to sustain the rally in US and European markets of the past few months and the consequences of global economic slowdown.

The pessimists are typified by Dresdner Kleinwort Benson, which warns investors that an "Ice Age" is looming.

This school argues that equities are over-valued and US company analysts in particular have become far too optimistic in their profits forecasts, making substantial adjustments inevitable.

Most macroeconomic strategists also think consensus forecasts for continental European earnings growth are too high.

They say predictions of a rise of about 14 per cent are not realistic in the context of an economic slowdown in euro-zone countries.

However, a significant proportion of analysts remain optimistic about the outlook for western markets. They argue that in the US the economy remains buoyant while in Europe the effects of the growth slow-down have already been priced in.

Some houses say equities still offer good value relative to bonds. Lehman Brothers, for instance, says that in Europe bonds will only prove a better bet if earnings growth is more than 30 percentage points below analysts' expectations.

There are also sharp differences of opinion about the influence of two unique issues the markets will face next year – the birth of the euro and the the looming impact of the year-2000 computer problem.

The euro's effects are forecast to be mixed for equities, and most observers are unwilling – or unable – to try to quantify them.

The big issue is will mega-caps continue to drive markets higher

Many think monetary union will drive prices downwards, putting earnings under pressure.

On the positive side, the new currency might stimulate growth via changes in capital flows.

Julian Callow, European economist for Kleinwort Benson Securities, says the net result could be an increase in the migration of money from Asia to the euro-zone, and a reduction in the movement of capital from the euro-11 countries to the US.

Analysts are equally uncertain about the likely effects of the millennium bug. While some expect it to depress market values as its severity becomes apparent, others argue that it will have an appreciable positive effect on economic growth rates next year – Kleinwort Benson's "minimal" forecast is that growth in the euro-zone will be lifted 0.2 percentage points as companies build up inventories as insurance against electronic chaos.

Most strategists, though, are cutting back their equity holdings. Goldman Sachs, for example has reduced the proportion of equity in its portfolio from 60 per cent to 57 per cent, compared with a neutral level of 55 per cent, and increased its holding of bonds from 30 to 33 per cent.

The broker still expects earnings growth globally, although it thinks return on capital will fall as economies slow. Profits should hold up better in continental Europe, the US than in the UK, Japan and Asia.

A big issue, as Goldman and others acknowledge, is whether the performance of the very biggest companies – or "mega-caps" – will continue to drive stock markets higher.

In November, the 20 largest US companies were rated at a premium of 49 per cent to the rest of the market, compared with 11 per cent in April; in Europe the figure rose from 8 per cent to 34 per cent over the same period.

While most strategists think the world's bourses will be helped by mergers and acquisition activity, few argue that this will allow world markets to break free of the grip of a global economic slowdown.

For most, the key question is how long the Dow Jones Industrial Average will remain close to all-time highs, defying the gloomy macroeconomic outlook. Investors worldwide will be watching carefully for signs of laughter or tears on Wall Street.

CURRENCIES

Dollar and yen in turmoil

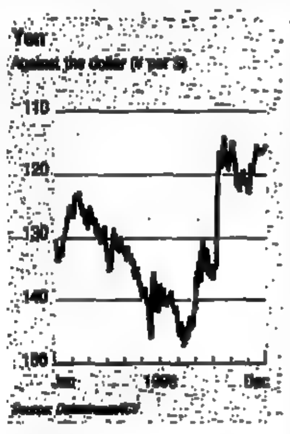
By Alan Beattie

The currency markets in 1998, in the words of one currency analyst, "broke the record books" for volatility, uncertainty and turmoil. It was a year that many, particularly those battle-scarred veterans of the gyrations between the dollar and the yen, will be happy to forget.

The calmest area of the battlefield was in continental Europe. Dire predictions of the euro project crashing in flames, or a last nostalgic speculative attack on the currencies entering monetary union disrupting the approach to the new year conversion deadline, proved erroneous.

In May, despite rumours of revaluations, the central parities of all participating currencies within the exchange rate mechanism (ERM) were taken as the conversion rates for monetary union. Thereafter even when the return of a social democratic government in Germany brought Oskar Lafontaine, the scourge of independent central bankers, on to the scene as finance minister, the euro-zone currencies sailed on towards union regardless.

Sterling also had a relatively uneventful year, certainly compared with the great bull runs of 1996 and 1997. With the interest rate cycle in the UK topping out around the middle of the year and talk of recession growing, the pound drifted down from over DM3 against the D-Mark to a more sustainable level of around DM2.80, from where successive interest rate cuts towards the end of the year seemed unable to move it.



The real excitement was taking place between those two old sparring partners, the dollar and the yen. As Guy Whittaker, the global head of foreign exchange at Citibank, said, "the early part of the year was dominated by continuing and, it seemed, permanent, yen weakness".

The yen sank to nearly Y150 as bad news about the Japanese economy continued to weigh on the currency.

As Japanese interest rates dropped towards zero the dangerous but lucrative game of "yen-carry trades" – borrowing low-interest yen, changing them into dollars and then benefiting from the higher returns on dollar assets – gained popularity.

Chief among the participants were hedge funds. It was the near collapse of the Long-Term Capital Management (LTCM) fund, following the devaluation of the Russian rouble, which eventually triggered what Mr Whittaker called the "once-in-a-career" movements of early October. Growing worries that LTCM was not the only fund in trouble led to a sudden dash to cover these yen borrowings, and with almost the entire foreign exchange market rushing out of the dollar, the consequence was inevitable. The dollar went into freefall, dropping by 20 yen in two days in one of the most remarkable weeks ever on the foreign exchanges.

After that battering, trading in the dollar-yen, and in fact in the whole currency market, dried up substantially as many traders closed their books early ahead of the new year. As the markets limped through the fourth quarter, the main subject of conversation was the unprecedented collapse in trading volumes.

"I have never seen volumes this weak in the 11 years I have been involved in the markets," said Ravi Bulchandani of Morgan Stanley Dean Witter in London. "There is a complete lack of conviction among traders."

The new year is likely to begin as the old one ended, with low volume in the currency markets and few traders wanting to take big bets until the euro has bedded down. But once liquidity returns, the market can start to assess the new currency and view the likelihood of it supplanting the dollar, under threat as a reserve currency from a huge current account deficit and continued worries about Brazil.

More trading volume may also see a renewed weakening of the yen, propped up by flows in thin markets at the end of 1998.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Thursday, December 31, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Thursday, December 31, 1998

MARKETS THIS WEEK

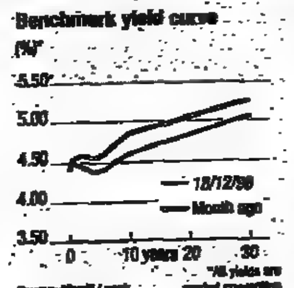
NEW YORK

By Richard Tomkins

The start of the fourth-quarter results season is likely to dominate stock market sentiment. Results due on Thursday from Morgan Stanley and Lehman Brothers should give an indication of how the other big Wall Street brokerages have fared amid recent market volatility.

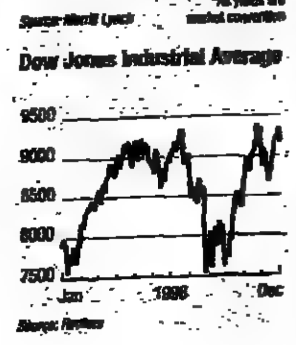
Stocks may also be influenced by the prospect of more merger mania amid reports Bell Atlantic is negotiating a $45bn takeover of Airtouch. Thursday's employment figures for December will be an important indicator of underlying economic trends.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

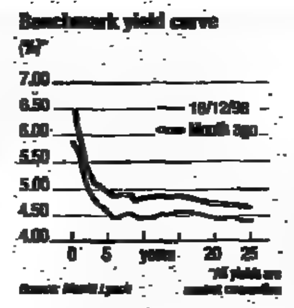
By Philip Coggan

The main domestic event of the week will be the meeting of the Bank of England's monetary policy committee.

After three successive cuts in interest rates, the committee may be tempted to pause for breath. However, economic growth forecasts for 1999 are still being revised down and with recession a realistic possibility, UK rates of 6.25 per cent, twice those in the euro-zone, still look high.

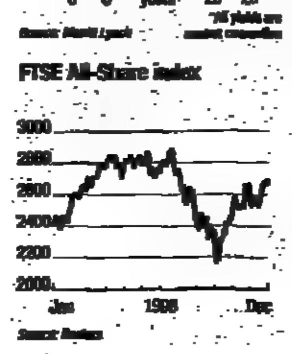
The committee may find some clues in today's purchasing managers' survey, which in past months has pointed to a weak manufacturing sector.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

FTSE All-Share index



Source: Reuters

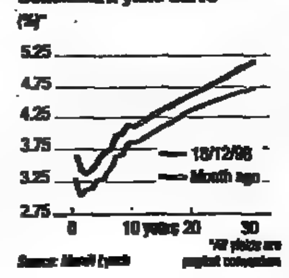
FRANKFURT

By Tony Barber

Investors expect a cautious start to the year as the market familiarises itself with trading in euros. The blue-chip Xetra Dax index dropped almost 50 points on the last business day of 1998, but still managed to finish the year at 5,006.57 points – better than expected during the market turbulence of September and October.

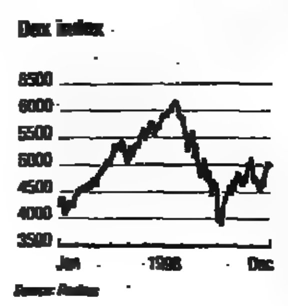
Telecommunication companies and banks are likely to attract attention. Dresdner Bank is being watched for signs that it may emulate Deutsche Bank, and become involved in merger talks with a large foreign institution.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Dax index



Source: Reuters

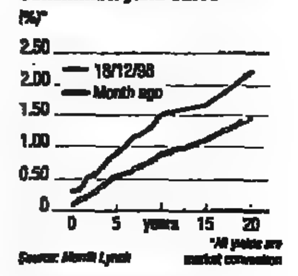
TOKYO

By Paul Abrahams

The Nikkei 225 index dropped more than 9 per cent to 13,842 in 1998, the third consecutive year in which it ended lower than it began. Prospects for 1999 are not bright, not least because economic fundamentals remain grim. Consumer demand remains subdued and capital spending continues to fall.

Investors will be watching the currency and JGBs carefully this week, and will be looking for any further political developments between the ruling Liberal Democratic Party and the Liberal Party, which have been negotiating a coalition.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average

Source: Reuters

CURRENCIES & MONEY

Euro heads the bill

By Alan Beattie

There is no doubt what the defining issue of the next week in the foreign exchange markets will be. Market participants' minds will be concentrated on the tentative process of starting to deal in the euro.

But for at least the first week, and possibly much longer, the main uncertainty surrounding trading in the new currency will be technical rather than fundamental.

The apparently smooth process of announcing the conversion rates of legacy currencies into the euro on 31 December may not be matched by banks' ability to convert their own systems. And the market will be alert for the first signs of trades going awry or settlement not being completed.

Special attention will be on trading in London because it is during London trading hours that most euro-related news is likely to break.

David Clementi, the Bank of England's deputy governor, warned last Friday that this week could see failed trades and payments sent to the wrong banks.

Only when it becomes clear that trading, especially in the interbank market, can be conducted without risk of a counterparty failing to complete a deal, will attention turn to the likely nature of the new currency.

Almost overlooked amid the attention given to the euro, the Bank of England's monetary policy committee (MPC) meets this week to consider another change in UK interest rates.

After two 50 basis point cuts at the end of 1998, the markets have revised down their view of the likely path of repo rates in the UK. At the moment the short sterling curve is pricing in about another 75 basis points off rates in the first quarter. But with surveys moderating their gloom about prospects for the economy the MPC may well decide to sit on their hands for the moment.

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

Dec 31	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	-	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

[illegible]

INTERNATIONAL CURRENCY RATES

[illegible]

POUND IN NEW YORK

[illegible]

FT GUIDE TO WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets in 1998 pages in today's edition.

THREE MONTH EUROMARK / TREASURY BILL FUTURES

[illegible]

OTHER CURRENCIES

[illegible]

BANK RETURN

The Bank Return table can be found on page 33 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES / PHILADELPHIA SE £/$ OPTIONS / SWISS FRANC FUTURES / PHILADELPHIA SE D-MARK/$ OPTIONS / JAPANESE YEN FUTURES / STERLING FUTURES

[illegible]

BENCHMARK GOVERNMENT BONDS

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 31	Dec 24		Dec 31	Dec 24
Bills on offer	£100m	£100m	Top accepted rate	5.5552%	5.5913%
Total of applications	£520m	£389m	Ave. rate of discount	5.5552%	5.5913%
Total allocated	£100m	£100m	Average yield	5.6299%	5.6702%
Min. accepted bid	£98.615	£98.605	Offer at next tender	£100m	£100m
Allotment at min. level	100%	100%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Exeter Trust Limited	7.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Financial & Gen Bank	6.00	Smith & Williamson	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	Sun Bank	6.25
Banco Bilbao Vizcaya	6.25	Habib Bank AG Zurich	6.25	TSB	6.25
Bank of Cyprus	6.25	Heritable & Gen Inv Bk	6.25	United Bank of Kuwait	6.25
Bank of Ireland	6.25	C. Hoare & Co	6.25	Unity Trust Bank Plc	6.25
Bank of India	6.75	●SG Hambros Bank & Trust	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	Hongkong & Shanghai	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Investec Bank (UK) Ltd	6.25		
Brit Bk of Mid East	6.25	Julian Hodge Bank	6.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.25	Lloyds Bank	6.25		
Clydesdale Bank	6.25	Midland Bank	6.25		
The Co-operative Bank	6.25	NatWestminster	6.25		
Coutts & Co	6.25	●Rea Brothers	6.75		
Cyprus Popular Bank	6.75	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.25	Scottish Widows Bank	6.75		

UK GILTS PRICES

[illegible]

صور من الأصل

EURO PRICES

New European Statistics

Changes to bond and currency coverage

EUROPEAN OVERVIEW

Today's FT brings several changes to the content of the Euro Prices page which reflect the creation of the euro on January 1 and the start of trading in the new currency today, writes Martin Dickson, Financial Editor.

The FT Synthetic Euro table has been dropped. It is replaced today by a table giving values for the euro against more than 30 of the world's currencies, as well as the locked-in conversion rates relative to the euro of the 11 countries which have joined European economic and monetary union.

Official trading in the euro was not beginning until today, *so how were the rates in the table established?* They were calculated on Thursday, after the EU had announced the locked-in *rates for* Emu members. International money markets continued to trade for some hours in the run-up to the January 1 holiday and the official birth of the euro.

This allowed rates to be established for the euro against the US dollar, looking at advance quotations for the euro itself and rates for its forerunner, the ecu, which converted on January 1 into the euro on a one-for-one basis.

Dollar cross-rates with other currencies were then used to establish rates for the euro against third party currencies.

From tomorrow's FT, following the start of trading, we will be publishing a full table showing the spot (immediate delivery) and forward (settlement at a future date) values of the euro against some 30 currencies.

The FT Synthetic Euro has disappeared because the birth of the new currency means it is no longer needed. It was introduced last May, along with the other features of the Euro Prices page, when the initial members of Emu were announced.

It was designed to be a very broad proxy for the new currency, giving a general indication of the euro's likely trading performance if it had already existed.

We have also dropped the Euro-zone Currency Convergence table, which was designed to show the gradual convergence of short-term interest rates among Emu members, and a table of Government Bond Spreads, which showed the same process across the fixed income yield curve.

A new table, Euro-Zone Bonds, replaces the Eurozone Corporate Bonds and Eurozone Credit Spreads tables. It is designed to fulfil both their functions, by giving a list of benchmark euro-denominated bonds in a variety of credit categories and across a range of credit grades.

The categories are utilities, financials, industrials, high yield, sovereigns, supra-nationals and German pfandbriefe.

Pfandbriefe, which form one of the largest single markets in the euro-zone, are bonds with very high credit ratings issued by mortgage and public sector banks and backed by mortgage loans or loans to the public sector.

Share price for FTSE Eurotop 300 index companies, quoted on this page today for the last time in ecu, differ slightly from the new prices quoted in euros on the World Stock Markets page.

CURRENCIES & MONEY

The value of the euro

€ rates fixed permanently against euro-zone currencies

Country		€ rate	Country		€ rate
Austria	Sch	13.7603	Ireland	I£	0.787564
Belgium/Lux	BFr/LFr	40.3399	Italy	L	1936.27
Finland	FM	5.94573	Netherlands	Fl	2.20371
France	FFr	6.55957	Portugal	Es	200.482
Germany	DM	1.95583	Spain	Pta	166.386

€ value against leading currencies*

Country		€ rate
US	$	1.1745
Japan	Y	132.4554
UK	£	0.7058
Switzerland	SFr	1.6129

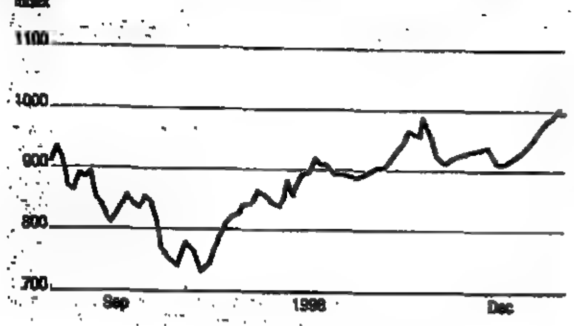
Against other currencies*

Country		€ rate	Country		€ rate	Country		€ rate
Argentina	Peso	1.1732	Indonesia	Rp	9335.3000	Saudi Arabia	SR	4.4046
Australia	A$	1.9145	Israel	Shk	4.8850	Sweden	SKr	9.5183
Brazil	Real	1.4188	Korea	Won	1412.0363	Singapore	S$	1.9375
Canada	C$	1.8037	Malaysia	M$	4.3782	Slovakia	Sk	43.2418
Cyprus	C£	0.5824	Mexico	Peso	14463.2980	Slovenia	Tolar	190.0230
Czech Republic	Kč	35.2030	Norway	NKr	8.9467	South Africa	Rand	6.6079
Denmark	DKr	7.4735	New Zealand	NZ$	2.2228	Thailand	Baht	42.8864
Estonia	EKr	15.6631	Philippines	Peso	45.6784	Taiwan	T$	37.8314
Greece	Dr	328.9488	Poland	Zloty	4.1217	Turkey	TL	370358.5125
Hong Kong	HK$	9.0972	Romania	Leu	12916.7750	UAE	Dh	4.3129
Hungary	Ft	252.6102	Russia	Rbs	25.3053	Special dr. rights	SDR	0.8321

* The euro, which did not come into existence until January 1, will begin official trading on foreign exchange markets on January 4. The non euro-zone rates above were calculated at the market close on December 31 from market trading in the ecu - which converted into the euro on a one-to-one basis on January 1 - against the US dollar and advance market quotes for the euro itself against the dollar. Dollar cross rates against other currencies were then used to calculate euro rates for those currencies. Source: WM/Reuters

FTSE Ebloc 100

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Dec 30

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1182.74	−0.74	−8.88	2.39	25.51	1212.85
FTSE Eurotop 100	2723.87	−0.92	−25.21	2.35	40.15	996.38
FTSE Ebloc 100	990.29	−0.23	−2.35	2.08	19.06	1013.33
FTSE EuroMid	1140.30	+0.50	+5.62	2.92	2.11	1161.03
FTSE EuroMid Ebloc	1215.72	+1.08	+13.02	2.30	0.53	1241.45
FTSE EuroMid Ex UK	1209.08	+0.80	+9.56	2.24	0.40	1231.47
FTSE Eurotop 300 Regions						
Eurobloc	1249.80	−0.12	−1.58	2.08	21.57	1276.43
UK	1092.82	−1.61	−17.92	2.77	35.36	1147.40
Europe Ex-Eurobloc	1126.40	−1.40	−16.38	2.88	29.39	1169.89
Europe Ex-UK	1234.40	−0.32	−3.96	2.07	20.00	1257.59
FTSE Eurotop Industry Sectors						
RESOURCES	863.90	−0.88	−7.75	3.32	29.22	903.40
Extractive Industries	732.83	−1.67	−12.46	4.71	14.54	748.30
Oil, Integrated	838.88	−0.86	−7.23	3.27	21.73	857.06
GENERAL INDUSTRIES	1065.18	−0.58	−6.18	2.50	21.44	1087.84
Construction	883.84	+0.51	+4.47	2.21	11.06	904.12
Building Matls & Merchs	805.94	+0.04	+0.38	3.68	8.98	822.05
Chemicals	840.68	−0.83	−7.06	2.78	17.45	855.52
Diversified Industrials	992.42	+1.04	+10.23	2.51	22.61	1015.12
Electronic & Elect Eqpt	935.97	−1.14	−10.81	1.71	5.41	941.07
Engineering	875.22	−0.74	−6.53	3.68	13.02	887.30
Paper, Pckg & Printing	783.40	−4.05	−32.25	2.85	1.21	764.35
CONSUMER GOODS	1229.42	−0.80	−9.92	1.53	18.98	1263.24
Automobiles	920.24	−0.30	−2.80	2.48	10.25	928.77
Alcoholic Beverages	958.42	−1.27	−12.30	2.62	17.03	980.15
Food Producers	1002.81	−0.33	−3.36	1.58	11.84	1014.80
Household Goods & Texts	1124.89	+1.40	+15.55	1.88	8.94	1154.40
Healthcare	1003.15	+0.32	+59.15	1.25	13.61	947.15
Pharmaceuticals	1091.74	−1.10	−12.20	1.15	5.27	1097.67
Tobacco	1275.54	−3.01	−39.65	3.05	22.77	1259.83
SERVICES	1215.11	−0.40	−6.08	1.90	24.50	1250.67
Distribution	801.90	+3.04	+23.83	2.72	11.37	811.80
Leisure & Hotels	793.58	−0.64	−5.17	2.52	12.27	809.42
Media	1020.75	−0.33	−3.33	2.25	10.88	1031.65
Retailers, Food	1045.68	−0.24	−2.48	1.96	15.80	1061.63
Retailers, General	1043.30	−0.20	−2.08	3.00	20.46	1064.82
Telecommunications	1171.04	−0.78	−9.22	1.60	16.16	1198.49
Breweries, Pubs & Rests	780.61	−0.40	−3.18	3.47	24.38	813.71
Support Services	1057.55	+0.30	+3.14	1.39	9.87	1069.77
Transport	957.20	−1.34	−12.98	2.69	18.24	975.03
Information Technology	862.01	−0.67	−5.79	0.44	2.33	864.04
UTILITIES	1494.65	−1.25	−18.97	2.95	62.05	1585.18
Electricity	1138.34	−0.98	−11.21	3.09	31.89	1174.78
Gas Distribution	1270.85	−2.05	−26.40	1.54	60.88	1342.41
Water	995.21	−1.45	−14.69	4.90	47.79	1043.27
FINANCIALS	1288.28	−0.87	−11.16	2.58	27.86	1302.82
Banks, Retail	880.84	−0.82	−7.09	3.38	13.60	873.07
Insurance	1012.05	−0.74	−7.63	1.37	11.79	1025.08
Life Insurance	1211.25	−1.44	−17.71	1.61	12.98	1226.90
Other Financial	841.79	−2.57	−21.71	2.30	15.85	865.85
Investment Companies	995.25	−0.28	−2.80	1.80	25.55	1017.12
Property	698.80	−0.64	−4.14	3.74	21.26	665.40

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■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	-	96.790	−0.010	-	-	0	0
Jun	-	96.936	+0.015	-	-	0	2233
Sep	-	96.945	+0.020	-	-	0	1181
Dec	-	96.946	+0.375	-	-	0	686

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
97000	0.010	0.015	0.025	0.140	0.120	0.125	0.135	0.170
97125	0	0	0.005		0.235	0.235	0.240	

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	2738.0	−19.0	-	-	0	6011

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2600 C	2600 P	2625 C	2625 P	2650 C	2650 P	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P
Jan	241	13	196	18	154	27	116	40	80	56	[illegible]	80	35	110	20	139
Feb	282	56	250	69	216	80	182	95	151	114	122	135	96	161	59	175

Est. vol total - . Prev day's open interest total 5,378 . Premiums shown are based on settlement prices.

OTHER INDICES

		Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50		(u)	3320.25	3348.45	3570.88	2433.07	3570.82	2433.07
DJ Euro Stx 50		(u)	3342.32	3364.71	3658.40	2419.23	3658.46	2419.23
MSCI Europe		(u)	1188.57	1198.91	1315.60	906.58	1318.65	510.75

Source: Extel/part of FT information. *Subject to revision next day. (u) unavailable.

BONDS

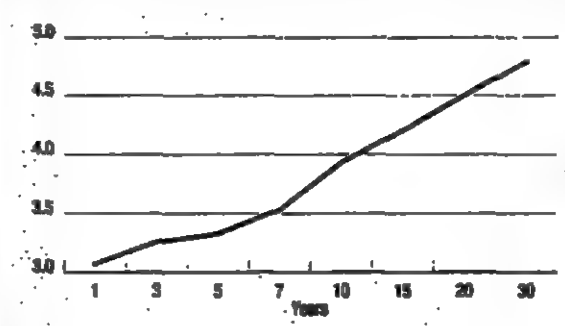
INTEREST RATE SWAPS

Dec 31	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.18	3.21	3.20	3.24	6.22	6.25	4.95	4.98	0.43	0.46
2 year	3.24	3.27	3.24	3.28	5.46	5.49	4.98	5.01	0.54	0.57
3 year	3.34	3.37	3.34	3.38	5.44	5.48	5.05	5.09	0.69	0.72
4 year	3.47	3.50	3.47	3.51	5.44	5.48	5.11	5.14	0.85	0.88
5 year	3.62	3.65	3.62	3.66	5.43	5.47	5.16	5.19	1.01	1.04
6 year	3.77	3.80	3.77	3.81	5.41	5.45	5.23	5.26	1.14	1.17
7 year	3.93	3.96	3.93	3.97	5.41	5.45	5.29	5.31	1.29	1.31
8 year	4.09	4.12	4.08	4.12	5.41	5.45	5.33	5.36	1.41	1.44
9 year	4.22	4.25	4.22	4.26	5.41	5.45	5.39	5.42	1.53	1.55
10 year	4.31	4.34	4.31	4.35	5.41	5.45	5.44	5.47	1.65	1.68
12 year	4.47	4.50	4.47	4.51	5.40	5.45	5.51	5.54	1.89	1.92
15 year	4.66	4.69	4.66	4.70	5.39	5.45	5.62	5.65	2.13	2.17
20 year	4.86	4.89	4.86	4.90	5.38	5.45	5.71	5.69	2.34	2.39
25 year	4.95	4.99	4.95	5.00	5.37	5.44	5.71	5.70	2.41	2.46
30 year	5.03	5.06	5.03	5.07	5.36	5.44	5.71	5.70	2.48	2.53

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR. £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd

Bond yield curve

Euro (%)



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Dec 31	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
CR	01/01	4.250	AAA	101.7719	3.35	−0.03	−0.17	0.15
Denmark	01/02	4.750	AA+	103.7067	3.43	+0.03	−0.09	0.17
Sweden	02/01	5.000	AA+	103.2176	3.37	+0.02	+0.11	0.17
Greece	11/06	6.750	BBB	114.3333	4.54	−0.03	−1.07	1.01
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	108.6832	4.29	+0.02	−0.12	0.62
EIB	04/08	5.200	AAA	107.5524	4.01	+0.02	−0.10	0.21
Eurofima	12/09	5.625	AAA	110.0587	4.44	0.00	−0.11	0.51
World Bank	04/05	7.125	AAA	118.2149	3.80	+0.01	+0.06	0.38
■ UTILITIES								
EDF	10/03	3.750	na	100.7041	3.59	+0.02	−0.13	0.30
TEPCO	02/03	4.750	AA	103.3052	3.87	+0.01	+0.09	0.58
Quebec Hydro	03/08	5.375	A+	105.4382	4.63	+0.01	−0.08	0.83
Norsk Hydro	10/99	7.250	na	102.5922	3.62	−0.01	0.00	0.63
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.7686	4.38	−0.01	−0.09	0.37
OKB	08/07	5.750	AAA	111.7583	4.11	−0.04	−0.17	0.44
Credit Local	04/08	5.250	AA+	107.1956	4.29	0.00	−0.15	0.49
Abbey Natl	01/09	5.000	AA-	102.0884	4.74	+0.01	−0.15	0.81
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.1632	3.51	+0.04	−0.10	0.31
McDonalds	03/08	5.125	AA	106.5297	4.00	−0.02	−0.11	0.20
Philip Morris	05/08	5.625	A	105.1166	4.93	0.00	−0.29	1.13
BAT Int Fin	07/06	5.375	na	101.2481	5.17	0.00	+0.08	1.64
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	na	105.4617	3.49	+0.03	−0.15	0.29
FHC	01/04	5.000	na	105.8145	3.71	0.00	−0.18	0.38
Bayer Vereins	01/06	6.000	na	112.2641	3.97	−0.03	−0.15	0.44
Depfa	07/08	4.750	na	103.7609	4.25	+0.04	−0.17	0.45
■ HIGH YIELD								
Geberit	04/07	10.125	na	108.6707	8.41	+0.01	−0.26	4.74
Colt Telecom	11/07	8.875	na	101.2000	8.68	0.00	−0.11	5.02
Impress Metal	05/07	9.875	B	110.0000	7.76	+0.01	−0.03	4.09
Remy Cointreau	07/05	10.000	B+	90.1048	12.23	0.00	−0.65	8.61

Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Dom	7.80	−1	8.5	8.7	4.6
Carlsberg B	46.81	−9	1.4	-	1.1
Diageo	9.74	−3	34.8	7.0	2.8
Heineken	51.17	+.2	16.0	0.8	0.6
DISTRIBUTORS					
Ahold (Kon)	34.62	+0.7	4.2	-	0.9
GEHE	60.73	+0.7	4.4	-	1.1
[illegible]	60.55	−0	3.0	-	1.1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING - Continued

HEALTH CARE - Continued

ENGINEERING, VEHICLES

HOUSEHOLD GOODS & TEXT

EXTRACTIVE INDUSTRIES

INSURANCE

FOOD PRODUCERS

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents, and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System (SETS).

All dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a 'net' basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service. Additions: [illegible] Deletions: [illegible]

FT Free Annual Reports Club

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FT Cityline

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For Retail Price Index details call 0891 43 0005.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

BERMUDA (REGULATED)(**)

Antares Investment Management Ltd

Bermuda Intl Invest Mngmt Ltd

Butterfield Funds

Credit Lyonnais Rouse (Bermuda) Ltd

CAYMAN ISLANDS (REGULATED)(**)

Adelphi Europe Fund

Allegro Capital Limited

Bank of Nova Scotia Trust Co (Cayman) Ltd

Baring Mutual (Ireland) Limited

The China Fund

Deutsche Bank A.G.

Dragon Securities Ltd

Global Fund Management S.A.

Korea Intl Investment Fund

Lehman Bros/GLG Partners Asset Mngmt

Liberal Asset Management - LIBERAL FUND

MFS Meridian Funds

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Offshore Advisory Mortgage Fd Inc

North Atlantic Management Co Ltd

Olympic Capital Management Ltd

Omega Overseas Partners Ltd

Opportunity Fund (s)

Orion Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Perry Partners International Inc

Philippine Indochina Fund Inc

Pro Value AG

Prospector Fund Management Ltd

Prudential Securities Futures Mgmt. Inc

Putnam Offshore Funds

Richmond Capital Limited

SEI Global Management (Cayman) Inc

Sierra Global Management PLC

Solaar Capital Inc

Sirrom Offshore Limited

Swiss Finance Global Funds

TIR Currency Management Ltd

Third Point Management Company LLC

Voltaire Fund

Zenith Lombardier Ltd

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Lloyds TSB Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

Barclays Global Investment Services Ltd

Butterfield Fund Managers (Guernsey) Ltd

CBC Fund Managers (Guernsey) Ltd

Dresdner RCM Global Investors (Guernsey) Ltd

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Aberdeen Prolific International Fund Plc

Global Asset Management Ltd - Contd.

Lazard Investment Funds Ltd - Contd.

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

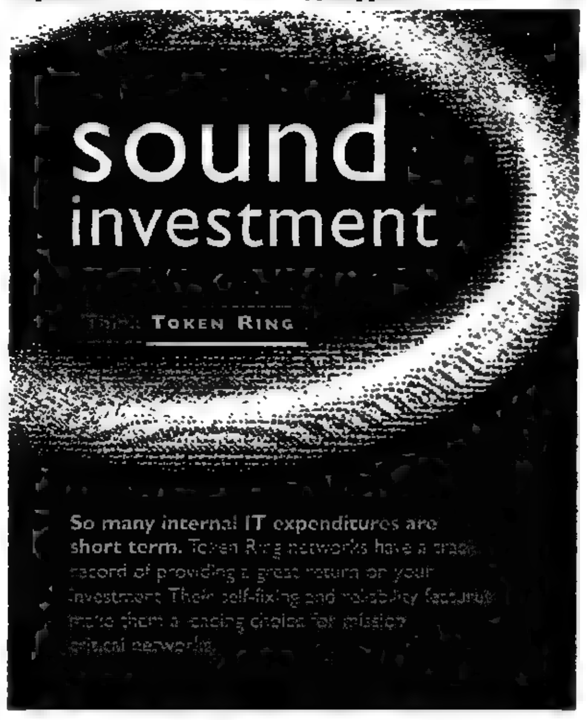
AIB Capital Funds Plc

Abbey National Dublin Investment Fd II Plc

Hanson Ireland Ltd

Irish Life International Global Funds Plc

Lazard Investment Funds Ltd



Old Mutual Fund Managers (Ireland) Ltd

Scottish Widows Investment (Ireland) Ltd

SEI Global Master Fund – Investor Class

The Sagitta Fund Plc

Schroder Investment Management (Ireland) Ltd

Scottish Amicable European Investment

Scottish Mutual Intl Fund Managers Ltd

Skandia Select Fund Plc

Singer & Friedlander Closed Funds Plc

ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Allied Dunbar Intl Fund Mgrs (1998)

Bank of Ireland Asset Management (IOM) Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

ISLE OF MAN (REGULATED)(**)

City Financial Admin (IoM) Ltd

JERSEY (FSA RECOGNISED)

AIB Fund Management (CI) Ltd

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

Lloyds Bank (CI) U/T Mgrs.

Lloyds TSB Fund Managers (CI) Ltd

Midland Bank Fund Managers (Jersey) Ltd

Newton Fund Mgrs (CI) Ltd (1200)F

Perpetual Fund Management (Jersey) Ltd

Royal Bk of Scotland Fd Mngrs - Contd.

SG Hambros Fund Managers (Jersey) Ltd

Standard Bank Fund Mgmt (Jersey) Ltd

WMB Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Lombard Odier Invest - Contd.

Sun Life Global Management Ltd (u)

LUXEMBOURG (REGULATED)(**)

Blakeney Management Ltd

Brunswick Russian Emerging Equities Trust

Kredietbank SA Luxembourg - Contd.

Lebanon Holdings

Lloyds Bank Luxembourg

Sigma Fund SICAV

Simpson Asset Management

Societe Generale Emer Europe Asset Mgt

Standard Chartered Investment Fund SA

State Street Luxembourg SA

OFFSHORE INSURANCES

Aberdeen International Ltd

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Dec 30) 1 € = 13.76030 Sch.

		+/-	High	Low	Yld	P/E
AusAir	30.45	—	36.04	19.82	1.2	18.1
Allabak	65.33	—	68.50	37.57	3.1	12.8
BWT	188.85	—	198.22	132.98	1.1	23.8
BkAust	43.24	—	83.78	32.70	2.4	8.4
BUAG	39.66	—	74.85	34.16	4.8	8.4
Brauuln	60.51	—	58.60	42.95	3.3	16.4
EA Gen	209.30	—	332.11	141.78	0.8	24.6
EVN	120.64	—	152.78	105.25	1.6	18.4
ErstBk	45.80xr	—	62.88	35.28	2.5	—
Jenbac	49.97	—	47.24	23.88	3.3	20.9
Lenzng	50.05	—	70.49	37.79	—	—
Leykam	19.05	—	28.71	15.19	—	—
Mayr-M	38.82	—	71.36	33.43	3.1	9.4
OMV	80.30	—	144.94	69.18	2.4	13.3
Oest E	48.88	—	60.50	41.08	2.8	17.8
OeElkA	130.23	—	152.08	88.73	0.9	—
RadexH	22.20	—	50.36	19.69	5.2	6.2
Univ B	30.52	—	30.85	22.09	1.8	44.8
VA Tec	73.84	—	104.57	67.24	3.1	10.6
VolAir	47.81	—	49.42	30.45	1.4	19.5
VA Stl	22.09	—	42.07	19.58	3.9	5.1
WSchPf	101.38	—	135.53	74.49	2.2	—
Wienbg	169.47	—	238	144.04	2.0	16.9

BELGIUM/LUX (Dec 30) 1 € = 40.33990 Frs.

[illegible]

FINLAND (Dec 30) 1 € = 5.94573 Mka

[illegible]

FRANCE (Dec 30) 1 € = 6.55957 Frs.

[illegible]

GERMANY (Dec 30) 1 € = 1.95583 Dm.

[illegible]

IRELAND (Dec 30) 1 € = 0.78756 Punt

[illegible]

ITALY (Dec 30) 1 € = 1936.27000 Lire

[illegible]

NETHERLANDS (Dec 30) 1 € = 2.20371 Fl.

[illegible]

PORTUGAL (Dec 30) 1 € = 200.48200 Esc.

[illegible]

SPAIN (Dec 30) 1 € = 166.38600 Pts.

[illegible]

EUROPE (NON-EMU)

CZECH REP (Dec 30 / Koruna)

[illegible]

DENMARK (Dec 30 / Kr)

[illegible]

GREECE (Dec 31 / Drachma)

[illegible]

NORWAY (Dec 30 / Kroner)

[illegible]

POLAND (Dec 31 / Zloty)

[illegible]

SWEDEN (Dec 30 / Kronor)

[illegible]

SWITZERLAND (Dec 30 / Frs.)

[illegible]

TURKEY (Dec 31 / TL Lira)

[illegible]

PACIFIC

JAPAN (Dec 30 / Yen)

[illegible]

AUSTRALIA (Dec 31 / AustS)

[illegible]

HONG KONG (Dec 31 / H.K.$)

[illegible]

INDONESIA (Dec 30 / Rupiah)

[illegible]

MALAYSIA (Dec 31 / MYR)

[illegible]

NEW ZEALAND (Dec 31 / NZ $)

[illegible]

SINGAPORE (Dec 31 / S$)

[illegible]

SOUTH KOREA (Dec 29 / Won)

[illegible]

TAIWAN (Dec 31 / TW $)

[illegible]

THAILAND (Dec 30 / Baht)

[illegible]

AMERICAS

CANADA

TORONTO (Dec 31 / Can $) 4 pm close

[illegible]

MONTREAL (Dec 31 / Can $) 4 pm close

[illegible]

MEXICO (Dec 31 / Peso) 12.30 pm

[illegible]

AFRICA

SOUTH AFRICA (Dec 31 / Rand)

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	THURSDAY DECEMBER 31 1998 US Dollar Index	% chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	WEDNESDAY DECEMBER 30 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	199.31	−0.4	177.62	142.11	172.58	216.13	5.8	3.29	198.93	174.74	142.80	171.18	213.88	219.98	163.66	200.12
Austria (21)	184.32	−2.5	164.26	131.42	159.61	159.49	−9.7	2.19	183.82	162.93	133.15	159.61	158.49	253.73	166.45	189.04
Belgium (22)	418.99	64.7	373.40	298.75	362.91	354.07	92.7	1.90	417.34	370.31	302.82	362.77	354.97	418.99	250.39	254.48
Brazil (32)	132.90	−44.3	118.44	94.76	115.08	295.59	−30.7	3.06	132.92	117.95	96.39	115.54	295.59	289.34	102.80	238.44
Canada (117)	199.37	−6.1	177.67	142.15	172.64	221.74	0.7	1.76	195.82	173.75	141.80	170.21	219.88	248.78	150.94	212.40
Denmark (34)	499.87	11.7	445.47	358.42	432.85	432.70	3.8	1.62	499.75	443.48	362.41	434.44	432.70	597.38	420.12	447.42
Finland (29)	576.37	105.6	512.75	410.25	498.22	611.40	92.1	1.64	573.08	508.52	415.59	498.16	611.40	585.03	267.50	278.52
France (75)	327.18	36.7	291.58	233.29	283.32	286.70	28.9	2.18	328.12	289.37	236.48	283.48	286.70	346.18	225.34	239.31
Germany (55)	280.95	22.5	250.38	200.33	243.28	243.28	13.4	1.33	279.86	248.34	202.05	243.20	243.28	325.61	218.59	229.42
Greece (36)	347.84	0.0	309.98	248.02	301.20	898.30	0.0	1.21	341.92	303.39	247.93	297.21	892.08	347.84	211.47	–
Hong Kong, China (87)	307.40	−13.9	273.95	219.18	266.18	305.75	−13.9	4.00	308.84	274.05	223.95	266.48	307.21	382.55	186.84	337.02
Indonesia (26)	50.14	−24.1	44.68	35.75	43.42	244.53	9.6	1.26	49.21	43.66	35.86	42.78	244.53	86.07	19.04	86.07
Ireland (16)	551.37	37.3	491.37	393.14	477.44	521.07	31.3	1.87	549.87	488.01	398.80	478.07	521.07	560.44	305.98	401.53
Italy (53)	178.88	52.0	159.42	127.55	154.90	220.29	41.8	1.27	178.17	158.09	128.19	154.87	220.29	184.40	117.85	117.85
Japan (445)	100.49	5.5	89.56	71.85	87.02	71.85	−8.5	1.04	98.82	87.68	71.65	85.90	71.85	109.73	78.83	95.29
Mexico (29)	1142.09	−96.7	1017.80	814.33	988.96	12249.62	−22.3	2.07	1128.84	1001.64	818.55	981.24	12261.90	1803.07	787.15	1803.07
Netherlands (25)	529.59	28.2	471.96	377.81	458.58	453.62	19.6	2.09	527.48	468.05	382.49	458.51	453.62	582.38	381.03	409.88
New Zealand (16)	58.01	−22.8	52.58	42.07	51.09	59.31	−15.1	4.92	60.27	53.48	43.71	52.39	60.08	77.84	45.66	76.41
Norway (37)	219.54	−31.3	195.65	156.54	190.11	227.04	−29.0	2.55	220.46	195.61	159.86	191.63	227.04	357.71	181.86	319.40
Philippines (22)	90.34	13.9	80.51	64.41	78.23	175.13	11.0	0.84	88.76	79.65	65.09	78.03	175.13	108.98	42.48	78.33
Portugal (18)	257.03	0.0	229.06	183.27	222.57	300.37	0.0	1.10	255.91	227.08	185.57	222.45	300.37	289.39	194.13	–
Singapore (41)	216.19	−4.0	192.67	154.15	187.21	164.39	−6.0	1.73	216.03	191.80	156.65	187.78	164.84	246.74	182.45	225.15
South Africa (38)	184.38	−30.5	164.29	131.45	159.64	237.05	−16.0	3.60	185.40	164.51	134.44	161.18	237.87	346.20	151.55	285.38
Spain (30)	399.95	47.1	358.43	285.17	346.32	429.33	36.8	1.87	399.39	358.50	290.80	346.30	429.33	417.73	271.79	271.79
Sweden (44)	502.00	6.9	447.37	357.94	434.70	602.39	9.2	1.90	501.60	445.08	363.72	436.02	602.39	628.19	379.16	489.51
Switzerland (30)	414.70	21.7	369.57	295.69	359.10	353.13	14.6	1.21	415.67	368.84	301.41	361.32	353.13	439.48	307.73	340.80
Thailand (35)	23.72	22.9	21.14	16.91	20.54	33.45	−7.2	2.83	23.52	20.87	17.05	20.44	33.45	33.84	8.15	19.30
United Kingdom (207)	378.19	14.0	337.03	269.66	327.48	337.03	12.7	2.91	379.83	337.00	275.43	330.17	337.03	401.84	307.98	331.78
USA (819)	506.79	27.9	451.64	361.35	438.84	506.79	27.9	1.29	508.82	440.71	367.51	440.55	508.82	510.17	376.74	396.39
Americas (797)	449.81	24.9	400.86	320.72	389.50	381.47	25.5	1.32	449.53	398.80	325.97	390.75	381.37	452.45	343.40	360.14
Europe (733)	360.91	24.8	321.53	257.34	312.52	325.87	18.9	2.05	360.74	320.09	261.58	313.57	326.85	386.24	279.29	289.10
Eurobloc (345)	105.97	0.0	94.44	75.56	91.76	99.32	0.0	1.74	105.57	93.68	76.55	91.77	99.32	113.28	81.58	–
Nordic (144)	487.20	18.2	434.18	347.38	421.88	491.49	16.6	1.82	488.61	431.78	352.85	422.98	491.49	498.07	360.04	412.31
Pacific Basin (730)	108.08	2.1	96.32	77.06	93.59	80.52	−8.8	1.55	106.57	94.57	77.28	92.84	80.49	118.49	82.88	105.89
Euro-Pacific (1463)	213.18	16.9	189.98	152.00	184.60	172.61	9.2	1.81	212.25	188.33	153.91	184.50	172.58	220.19	186.00	182.30
North America (736)	485.93	26.3	433.05	346.48	420.78	487.13	26.7	1.31	485.66	430.94	352.16	422.16	487.02	488.91	367.39	384.66
Europe Ex. UK (526)	339.59	30.8	302.63	242.13	294.08	310.40	22.5	1.86	338.66	300.50	245.57	294.38	310.36	306.32	250.03	259.87
Europe Ex. Eurobloc (388)	96.97	0.0	86.41	69.14	83.97	95.59	0.0	2.42	97.27	86.31	70.53	84.55	95.88	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (181)	98.27	0.0	87.57	70.07	85.09	94.08	0.0	1.43	98.33	87.25	71.30	85.47	94.92	100.21	75.18	–
Pacific Ex. Japan (285)	181.88	−9.2	162.09	129.69	157.50	187.67	−7.2	3.49	181.30	160.87	131.47	157.60	187.38	218.04	128.28	209.41
World Ex. Eurobloc (1953)	104.74	0.0	104.90	88.80	98.05	102.80	0.0	1.56	104.54	104.24	88.13	98.23	102.78	105.30	93.00	–
World Ex. US (1679)	212.14	13.9	189.05	151.28	183.69	177.26	7.6	1.08	211.11	187.32	153.08	183.51	177.17	221.91	165.95	186.32
World Ex. UK (2081)	300.28	21.8	267.61	214.11	260.02	286.07	18.3	1.44	299.39	265.66	217.10	260.25	268.01	300.65	234.66	248.69
World Ex. Japan (1853)	409.79	23.0	365.19	292.19	354.84	397.63	21.4	1.65	409.54	363.30	296.97	355.98	397.54	412.10	310.70	333.17
The World Index (2288)	307.02	20.9	273.61	218.91	265.65	272.57	17.7	1.59	306.33	271.81	222.13	265.28	272.01	307.98	242.06	259.86

Emerging markets:

IFC Investable Indices

Dollar terms

Dec 31 Market	Index	Day's % chg	% chg on 31/12/97
[illegible]			

NEW YORK STOCK EXCHANGE PRICES

4 pm close December 31

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9181.43	9274.64	9320.98	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	108.42	108.21	108.47	107.17 (8/12)	104.42 (11/5)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3149.31	3129.84	3068.39	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	312.30	310.92	312.57	320.51 (8/10)	262.68 (8/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9343.64 (9390.75) Low 9108.77 (9211.30) (Theoretical) Day's high 9287.77 (9326.39) Low 9181.43 (9258.20) (Actual)

Standard and Poors	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite	1229.23	1231.93	1241.81	1241.81 (29/12)	927.69 (9/1)	1241.81 (29/12/98)	4.40 (1/6/32)
Industrials	1479.16	1479.97	1494.06	1494.06 (29/12)	1077.40 (9/1)	1494.06 (29/12/98)	3.52 (30/6/32)
Financial	130.17	131.78	132.05	147.88 (14/7)	95.80 (8/10)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	595.81	594.27	597.05	609.75 (17/7)	477.20 (8/10)	609.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	688.99	672.07	670.75	753.67 (22/4)	563.75 (8/10)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2192.69	2168.95	2181.77	2192.69 (31/12)	1419.12 (8/10)	2192.69 (31/12/98)	54.87 (3/10/74)
Russell 2000	421.96	411.91	410.41	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Dec 24	Dec 18	Dec 11	Year ago
Dow Jones Ind. Div. Yield	1.65	1.71	1.72	1.79
	Dec 16	Dec 9	Dec 2	Year ago
S & P Ind. Div. yield	1.23	1.21	1.22	1.49
S & P Ind. P/E ratio	35.68	36.28	35.71	25.90

US DATA

MARKET ACTIVITY

Volume (million)	Dec 31	Dec 30	Dec 29
NYSE	669.232	597.890	586.490
Amex	34.658	30.384	25.589
NASDAQ	889.749	928.301	920.761

NYSE	Dec 31	Dec 30	Dec 29
Issues Traded	3,543	3,528	3,552
Rises	2,320	1,601	1,764
Falls	775	1,380	1,234
Unchanged	448	547	554
New Highs	140	132	131
New Lows	30	58	74

NYSE TRADING ACTIVITY

Volume : 669,232,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Amoco	83,958,500	59	+4¼
AmOnLine	30,132,300	160	+12
BP	13,433,600	95	+11⅞
Finsb	12,399,600	93¼	+1⅞
Hallibtn	6,762,400	29⅝	+⅜
Compaq	5,814,800	41⅞	–⅜
Edsmint	4,887,400	27¾	+⅛
Boeing	4,644,600	32⅝	+¼
Cendnt	4,296,500	19¼	+⅛
Citgrp	4,116,400	49½	–1⅛

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
FstBksAm	16½	+2⅜	+16.0
BP	95	+11⅞	+14.4
CoreLabs	19⅝	+2¼	+13.3
Golfsn	10⅝	+1¼	+13.3
Downs			
FrnkRs	32	–3⅜	–9.4
BellAtl	53½	–4	–7.0
Huntgtn	17⅞	–1⅛	–5.9
CrstFn	72	–4½	–5.9

NASDAQ TRADING ACTIVITY

Volume :889,749,000

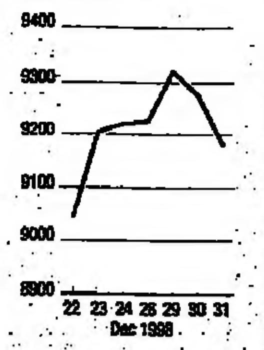
ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Cmpwre	18,849,000	78⅛	+1⅛
MCIWcm	12,053,900	71¾	–⅜
DellCmp	7,515,300	73⅛	–⅛
CiscoSys	7,236,100	92⅞	+½
Intel	7,174,700	118⅝	–¾
PeoplSoft	6,195,100	18⅞	+⅛
Micsft	5,844,500	138⅝	–⅜
Infrmx	5,531,000	9½	+1⅛
Clarent Cp	5,346,500	14⅝	+⅞
Netscp	5,299,500	60⅝	–1⅛

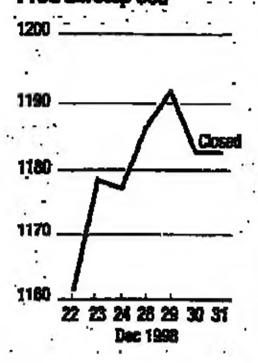
BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Bamatn	13⅝	+2⅝	+23.6
MchFds	30	+5⅛	+20.6
Deb Shops	15	+2⅜	+18.8
TecnmxTch	17½	+2⅝	+16.6
Downs			
Verio	22⅞	–2⅛	–8.7
Eggheed	20⅞	–1⅞	–8.5
E trade	46⅝	–4⅛	–7.9
Imnvex	13⅞	–1⅛	–7.8

Dow Jones



FTSE Eurotop 300



JAPAN

	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	closed	13842.17	13846.90	17264.34	12879.97	38915.9	85.25

Day's high – Day's low –

TOKYO TRADING ACTIVITY

Volume : 127,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
NpSti	2,806,000	205	–3
NeuJpSc	2,693,000	106	
Sakura	2,890,000	259	+3
FujiBk	2,161,000	476	–9
MbElec	1,945,000	355	+3
YasTrB	1,814,000	87	
Toshiba	1,719,000	673	+8
SumMt	1,588,600	139	+1
SumiTrB	1,532,000	300	–2
AsahiBk	1,496,000	414	

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Oki El	333	+29	+9.5
NiCred	2510	+210	+9.1
MabMot	8650	+580	+7.2
Nichirei	86	+6	+6.7
Downs			
NCR Jp	608	–51	–7.7
Mistowil	350	–24	–6.4
CamOil	171	–11	–6.0
Settsu	48	–3	–5.9

FRANCE

	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	closed	3942.66	3881.10	4388.48	2882.54	4388.48	984.81

Day's high – Day's low –

PARIS TRADING ACTIVITY

Volume : 392,634,300

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FrTele	1,355,699	444	–6.7
TotalB	611,974	566	–5
Usinor	501,633	62.05	–0.85
BNP	498,823	480.2	+20.2
Axa	473,670	810	+20
RhonPA	424,736	287.6	+1.6
ElfAqu	416,963	646	+6
Alcatel	361,552	684	+4
Renault	319,048	251	+6
Vivendi	285,770	1450	+14

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
ThmCSF	240	+14	+6.2
GrAndr	600	+48	+8.7
LegdPl	890	+50	+6.0
CPR	258	+13	+5.3
Downs			
DexFra	861	–19	–2.2
Sanofi	920	–20	–2.1
Synthl	1183	–25	–2.1
MetEst	150	–2.8	–1.8

GERMANY

	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	closed	5002.39	5031.87	6171.43	3896.08	6171.43	931.18

Day's high – . Day's low – .

FRANKFURT TRADING ACTIVITY

Volume . 18,818,117

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Dt Tel	416,441	54.8	+0.8
Comzbk	400,881	52.7	+1.2
DmlrChr	386,517	164.5	–0.5
Siemns	234,511	107.5	–3.5
Lufthsa	212,055	38.8	+0.1
Dt Bk	192,140	98.05	+0.35
BASF	191,491	63.6	–0.9
Bayer	191,210	69.55	–0.7
Veba	167,866	99.7	+1.7
VW	165,228	133	–4.8

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
BilfBg	42.5	+6	+16.4
ZnFpap	138	+13	+10.4
Alzem	130	+10	+8.3
Linde	1025	+56	+5.7
Downs			
ProSPf	77	–3	–3.7
VW	133	–4.8	–3.3
HocBrnk	60	–2	–3.2
Siemns	107.5	–3.5	–3.2

UK

	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	closed	5882.6	5941.5	6179.00	4648.70	6179	986.9

Day's high – Day's low –

LONDON TRADING ACTIVITY

Volume : 188,200,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BP	15,348,490	897½	–11
Graycoat	7,755,000	172	+3½
Albert Fisher	6,076,494	5½	+½
Shell T&T	3,909,674	369½	–3¾
Billiton	3,880,879	119¼	–2¼
BT	3,203,902	905½	–1
BTR	2,862,815	124	–1
Glaxo Wlcme	2,461,205	2068	–5
SmthBchm	2,399,379	840	–2
[illegible]	2,331,256	1¼	

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Stathmore	267½	+77½	+40.8
InterX	315	+65	+26
Quantica	73	+14	+23.8
Osprey Cns.	11	+2	+22.2
Downs			
Tusker Res.	¼	–⅛	–25
Tempeyko Grp.	3	–½	–14.3
Soco Int.	52	–8½	–11.1
GalaxyMedia	68½	–7	–9.2

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1242.00	1245.50	+3.4	1248.00	1234.10	56,379	371,271
Jun	1255.50	1257.10	+3.6	1255.50	1250.00	668	8,468

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13810.0	13700.0	–160.0	13900.0	13700.0	5,388	181,088
Jun	13760.0	13610.0	–150.0	13760.0	13610.0	17	32,980

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	3918.0	3918.9	+30.9	3920.0	3863.0	53,808	50,780
Jan	3922.0	3926.5	+30.5	3936.0	3877.0	35,231	144,197

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	5085.0	5064.0	–2.0	5136.5	5036.0	8,116	52,070
Jun	5132.0	5100.0	+9.0	5151.0	5093.5	271	3,319

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	715.00	705.00	–7.00	719.00	702.00	11,118	188,035
Feb	718.00	707.00	–8.00	718.00	706.50	138	–

EUREX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	7285.0	7170.0	–66.0	7292.8	7158.0	9,507	113,110
Jun	7224.0	7116.0	–110.0	7224.0	7119.0	112	2,008

WORLD MARKETS AT A GLANCE

Country	Index	Dec 31	Dec 30	Dec 29	1998 High	1998 Low	Yield	P/E
Hungary	Bux	(c)	6307.57	6371.44	9016.38 23/4	3778.02 21/9	na	na
India	BSE Sens.	3055.41	3110.32	3048.29	4280.86 21/4	2764.35 20/10		
	Crisil 500	608.06	618.37	598.78	815.63 21/4	557.88 20/10	na	na
Indonesia	Jakarta Comp.	(c)	398.04	396.73	554.10 2/2	256.83 21/9	2.49	20.5
Portugal	BVL 30	(c)	4794.70	4784.17	6178.88 22/4	3588.88 2/10	2.1	38.7
	PSI 20	(c)	10998.92	10906.91	14282.86 22/4	8114.91 2/10		
Russia	RTS	58.93	59.39	58.98	411.81 5/1	38.83 5/10	na	na
Singapore	SES All-S'pore	382.51	384.64	380.48	437.38 19/3	253.30 4/9	2.32	20

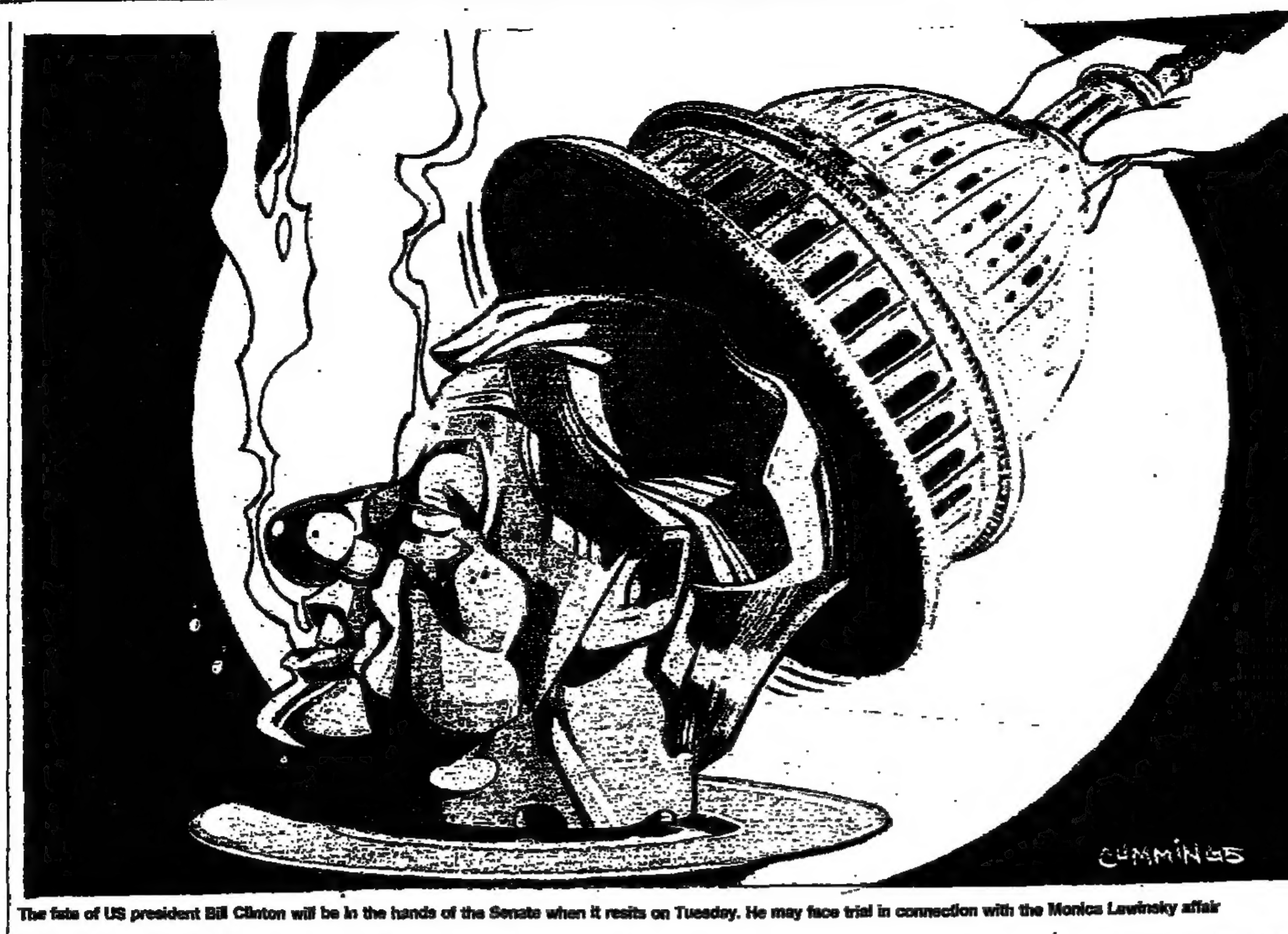
THE NASDAQ-AMEX MARKET GROUP *4 pm close December 31*

THE NASDAQ-AMEX MARKET GROUP

AMEX *4 pm close December 31*

EASDAQ

FT GUIDE TO THE WEEK



The fate of US president Bill Clinton will be in the hands of the Senate when it resits on Tuesday. He may face trial in connection with the Monica Lewinsky affair

MONDAY 4

Euro currency debut

Today is the first working day for Europe's euro currency, including closure of first price quotes in euro at the Brussels Bourse, with Jacques Santer, president of the European Commission, and the Belgian prime minister Jean-Luc Dehaene attending. Euro coins and notes will not appear on Europe's streets until 2002 but production is already under way.

Japanese delegation to US

Taichi Sakaiya, director-general of the Japanese Economic Planning Agency, visits Washington where he will meet officials to discuss regional economic difficulties. He will be accompanied by Yukihiko Ikeda, chairman of the Liberal Democratic party's policy research council.

Soccer chairman decision

Britain's Football Association is to hold a special council meeting to discuss the future of Keith Wiseman, its chairman. The council has already passed a vote of no confidence in Wiseman following allegations that the FA lent £3.2m to the Football Association of Wales in return for voting Wiseman on to the board of Fifa, football's international ruling body. FA chief executive Graham Kelly has resigned and the meeting is also expected to install his replacement.

Japanese PM's new year

Keizo Obuchi, the Japanese prime minister, and members of his cabinet are to mark the new year with a visit to the Ise Jingu Shinto shrine in the Mie prefecture. A cabinet reshuffle and the formation of a new government are expected tomorrow. The reshuffle follows the launch of a Liberal Democratic party-Liberal party coalition. Liberal party secretary-general Takeshi Noda is expected to be among those joining the 18-member cabinet.

Burmese anniversary

Burma (Myanmar) celebrates its anniversary as an independent republic outside the British Commonwealth. Aung San Suu Kyi, opposition leader and Nobel prize winner, is expected to invite more than 1,000 people to her house to celebrate. She was released from house arrest in 1995, but her movements are still restricted by the authorities.

Holidays

Hungary, New Zealand, Russia, Slovakia.

TUESDAY 5

Middle East visit by Japanese

Masahiko Komura, the Japanese foreign minister, begins a week-long visit to Israel, Egypt and the Palestinian territory. Discussions are expected to cover progress of the Wye River Agreement between Israel and the Palestinians, the opening of Gaza international airport and regional aid.

Europe and peace process

The European Parliament Foreign Affairs Committee will meet the European Union special envoy for the Middle East peace process Miguel Moratinos.

Intel antitrust case

Intel, the microprocessor manufacturer, faces an antitrust case brought by the US Federal Trade Commission. The company has delayed the launch of its 64-bit Merced chip until mid-2000.

Holidays

Armenia, Hungary, Slovakia, Sweden.

WEDNESDAY 6

Blair visits South Africa

Tony Blair, the UK prime minister, begins a three-day visit to South Africa at the invitation of Thabo Mbeki, South African deputy president, who met Blair in London in November.

They are expected to discuss the prime minister's "third way" and the financing of social programmes by the sale of state-owned industries to the private sector.

Iraq's Army Day

Iraq commemorates Army Day, marking the founding of the country's armed forces in 1921.

US House of Representatives

The newly-elected US House of Representatives sits for the first time in Washington.

Japanese PM in Europe

Keizo Obuchi, Japanese prime minister, begins a week-long visit to Europe.

Germany's opposition meets

Traditional start of the year gathering of Germany's Christian Social Union in the Bavarian town of Wildbath Kreuth.

This year's two-day gathering will the first since the CSU went into opposition at national level following the general election in September. It is expected to give early indications of the make-up of the party's leadership which is due to be voted on at a separate conference in mid-January.

Among the speakers expected at Wildbath Kreuth is Otmar Issing, chief economist of the European Central Bank, who is due to speak on the subject of European financial policy (to January 8).

Holidays

Austria, Cyprus, Finland, Germany, Greece, Hungary, Italy, Slovakia, Spain, Sweden.

THURSDAY 7

German energy tax talks

Oskar Lafontaine, the German finance minister, is scheduled to meet Karel van Miert, European competition commissioner, for talks about energy taxes.

The Commission says the Bonn government's plans to exempt energy-intensive industries from increased fuel taxes – after complaints that they would be put at a disadvantage to European competitors – amount to an unfair subsidy.

Discussion is also likely to include Lafontaine's ambitions for EU tax harmonisation, which is partly designed to protect German industry from competition.

Colombia peace talks

Victor Ricardo, the Colombian government's peace commissioner, is scheduled to meet Manuel Marulanda, commander of FARC, the largest of the country's guerrilla groups, in an attempt to revive a faltering peace process.

The meeting at San Vicente del Caguan – the first official contact between the two parties for six years – is seen as the last hope for a political solution to a conflict that has killed more than 35,000 people during the past 10 years.

EU environment meeting

The European Union holds two days of talks in Brussels about the environment with the six countries which will be in the next wave of accessions: Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus.

Environmental issues, including those of water quality and nature protection, are among the three most difficult areas in the screening talks, which cover the 37 chapters of European law. Talks about the issues of transport and agriculture have already started.

Salzburg conference

Austrian Chancellor Viktor Klima's Social Democratic party opens its annual conference in Salzburg (to January 9).

Tax reform and forthcoming provincial, European and national elections are expected to dominate discussion.

Holidays

Eritrea, Ethiopia, Georgia, Liberia, Macedonia, Moldova, Russia, Syria, Ukraine.

FRIDAY 8

UK boat show begins

London's International Boat Show opens to the public at Earl's Court (to January 17). The show, with more than 600 exhibitors, is expected to attract 180,000 visitors.

D'Alema visits the Vatican

Massimo D'Alema, Italy's first prime minister to have been a Communist, makes an official visit to Pope John Paul II and the Vatican.

Havana marks anniversary

Cuba celebrates the 40th anniversary of Fidel Castro's entry into Havana after the revolution.

Seoul searching

South Korea's parliamentary hearings to establish the causes of the country's economic crisis are scheduled to begin today.

Holidays

Bosnia, Moldova.

SATURDAY 9

Nigeria's new year

Nigeria continues its gradual progress towards democracy in the wake of the death of military head of state Gen Sani Abacha on June 8 last year with elections for governors and assemblies in all the country's 36 states. Parliamentary polls are scheduled to follow on February 20 and presidential elections on February 27. Nigerians face a difficult year if the country's oil income continues to fall steeply.

North American auto show

The North American International Auto Show, the US motor industry's premier event, opens to the public in its home town of Detroit.

This year's show will mark the debut of the newly-merged DaimlerChrysler: co-chairmen Jürgen Schrempp and Bob Eaton may be expected to make a big effort.

A resurgent Ford, run since January 1 by Jac Nasser, and a recovering General Motors are unlikely to leave the field entirely to the competition.

SUNDAY 10

Kazakhstan elects PM

A presidential election is scheduled to take place in Kazakhstan.

Edited by Roger Beale and Martin Mulligan
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ECONOMIC DIARY

Other economic news

Monday: The National Association of Purchasing Managers' composite index in the US is expected to have shown a mild improvement in business conditions during December.
Tuesday: Consumer confidence in France remains in negative territory, and may even have deteriorated in December according to the latest figures published.
Wednesday: As the Bank of England holds its monthly monetary policy meeting, the Purchasing Managers Index measuring UK service sector business activity is likely to remain below the crucial 50 "break-even" mark during December, for the second consecutive month.
Thursday: Wholesale price deflation remains under way in Japan with the wholesale prices index for December forecast to show another fall in the level, thanks to the recession and the recent strength of the yen.
Friday: The labour market in the US is likely to have exhibited continued signs of strength during December, with the consensus forecast for unemployment falling to 2.2 per cent.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Germany	Dec Consumer price index**		47.60
Jan 4	UK	Nov consumer credit		£1.2bn
	UK	Nov final M4*		0.2%
	UK	Nov final M4**		8.4%
	UK	Dec Chart'd Inst of Purchasing Mgrs		41.1
	US	Dec Nat Assoc of Purchasing Mgrs		46.8%
	US	Dec domestic light truck sales		6.7m
	US	Dec domestic auto sales		6.5m
Tue	Japan	Dec auto sales**		-15.9%
Jan 5	Japan	Dec forex reserves		0.3%
	France	Dec houshold survey	-12	-10
	Italy	Nov producer price index**		-0.9%
	UK	Dec provisional M0*		0.4%
	UK	Dec provisional M0**		4.8%
	UK	Dec official reserves		$0m
	US	BTM-Schroders 2 Jan		
	US	Nov construction spending		0.3%
	US	Redbook 2 Jan		
	Ireland	Dec EBR IEPM		
Wed	UK	DEC CIPS services survey		49.1
Jan 6	Canada	Dec foreign reserves		C$3.2bn
	Canada	Nov industrial prod' price index*	-0.1%	0.7%
	Canada	Nov raw materials price index	-0.7%	-0.3%
	US	Nov new home sales		851k
	US	Dec NAPM (non-manufacturing)		53.0%
Thur	Japan	Nov overall personal consum expend**		-1.0
Jan 7	UK	Dec CPI distributive trades		-9
	US	Initial claims 2 Jan		
	US	state benefits 26 Dec		
	Canada	Dec help wanted index	144	144
	US	Nov factory orders		-1.6%
	US	Nov factory inventories		0.6%
	US	M2 – week ended 28 Dec		
	Japan	Dec overall wholesale price index*		-0.5%
	Japan	Dec overall wholesale price index**		-3.5%
	Japan	Domestic wholesale price index**		-2.2%
Fri	Japan	Nov coincident index		60.0%
Jan 8	Japan	Nov leading differential index		55.6%
	Italy	Dec final consumer price index*		0.1%
	Italy	Dec final consumer price index**		1.5%
	Germany	Dec unemployment pan-Germany	6k	4k
	Canada	Dec employment*	18k	103k
During the week...				
	Germany	Nov VDMA orders 3 months**		-11.0%
	EMU	Nov unemployment rate		10.8%
	Germany	Nov industrial production pan-Germany*	-0.5%	1.4%
	Germany	Nov manufac output pan-Germany*		1.6%
	Germany	Nov industrial production west*		1.3%
	Germany	Nov industrial production east		3.7%

*month on month, **year on year

Statistics, courtesy Standard & Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 03.01.99 / Final Prices for Trading on 06.12.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.37	9.65	9.65	0.00
0100	25.00	17.00	17.42	0.97
0130	25.91	23.34	23.76	0.97
0200	27.95	23.34	23.76	0.97
0230	25.91	17.00	17.42	0.97
0300	27.95	15.49	15.91	0.97
0330	27.95	15.49	15.91	0.97
0400	25.91	10.95	11.37	0.97
0430	19.85	15.49	15.91	0.97
0500	15.49	10.95	11.37	0.97
0530	10.74	10.95	11.37	0.97
0600	10.74	9.50	9.50	0.00
0630	10.74	9.50	9.50	0.00
0700	10.74	9.50	9.50	0.00
0730	9.00	11.22	11.64	0.97
0800	9.00	9.50	9.50	0.00
0830	9.00	11.22	11.64	0.97
0900	9.00	14.17	14.59	0.97
0930	9.00	14.17	14.59	0.97
1000	10.74	15.63	16.05	0.97
1030	18.81	15.63	16.05	0.97
1100	21.63	15.93	16.35	0.97
1130	24.00	17.38	17.80	0.97
1200	29.20	18.25	18.67	0.97
1230	29.20	18.25	18.67	0.97
1300	29.20	18.25	18.67	0.97
1330	29.20	18.25	18.67	0.97
1400	11.30	9.79	9.79	0.00
1430	10.40	9.76	9.76	0.00
1500	9.80	9.65	9.65	0.00
1530	9.70	9.65	9.65	0.00
1600	11.30	9.79	9.79	0.00
1630	24.11	18.25	18.67	0.97
1700	33.59	18.26	18.68	0.97
1730	55.89	24.56	24.98	0.97
1800	55.89	24.56	24.98	0.97
1830	42.36	20.55	20.97	0.97
1900	38.30	20.54	20.97	0.97
1930	33.59	19.00	19.42	0.97
2000	30.52	19.00	19.42	0.97
2030	30.52	18.59	19.01	0.97
2100	24.11	18.59	19.01	0.97
2130	21.63	17.38	17.80	0.97
2200	21.63	9.70	9.70	0.00
2230	15.70	9.65	9.65	0.00
2300	15.70	15.93	16.35	0.97
2330	15.70	15.93	16.35	0.97
2400	14.00	9.86	9.86	0.00

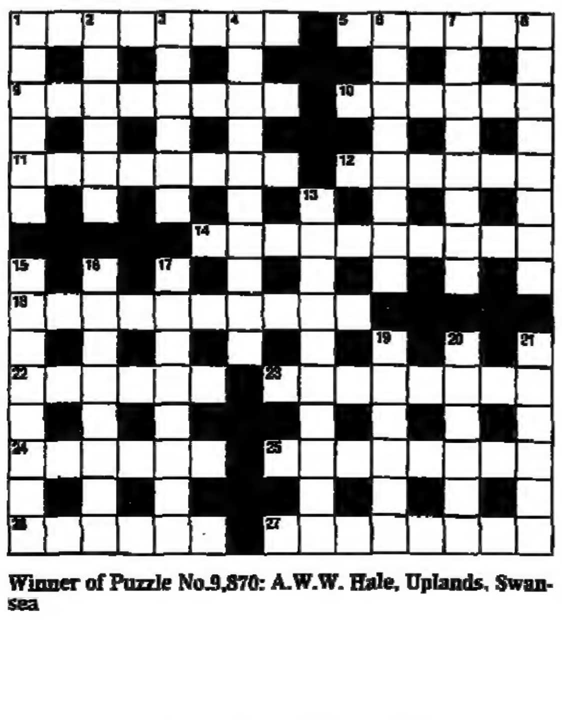
Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 04.01.99 / Final Prices for Trading on 07.12.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	15.70	9.76	9.76	0.00
0100	15.70	15.93	16.47	1.10
0130	17.00	17.00	17.53	1.10
0200	17.00	17.00	17.53	1.10
0230	15.70	17.00	17.53	1.10
0300	17.00	17.00	17.53	1.10
0330	17.00	17.00	17.53	1.10
0400	15.70	15.93	16.47	1.10
0430	15.70	15.93	16.47	1.10
0500	14.00	15.93	16.47	1.10
0530	9.80	20.00	20.00	0.00
0600	9.80	15.75	15.75	0.00
0630	15.80	14.99	14.99	0.00
0700	21.04	15.75	15.75	0.00
0730	35.43	34.42	34.97	1.10
0800	35.43	35.56	36.15	1.10
0830	36.14	34.70	35.33	1.10
0900	36.15	35.01	35.74	1.10
0930	36.15	37.02	37.84	1.10
1000	36.15	35.39	36.30	1.10
1030	41.36	37.22	37.27	1.10
1100	41.26	33.51	34.08	1.10
1130	41.43	34.74	35.24	1.10
1200	56.30	52.12	52.76	1.10
1230	56.34	51.90	52.47	1.10
1300	56.36	34.70	35.27	1.10
1330	41.55	34.35	34.87	1.10
1400	43.56	34.86	35.09	1.10
1430	43.59	35.07	35.61	1.10
1500	43.57	35.72	36.46	1.10
1530	43.58	40.84	43.11	1.10
1600	42.37	81.52	90.23	1.10
1630	50.75	164.21	179.10	1.10
1700	83.50	228.80	262.12	1.10
1730	85.35	231.18	264.05	1.10
1800	78.91	167.23	190.12	1.10
1830	71.37	82.83	91.71	1.10
1900	60.30	53.13	56.82	1.10
1930	58.54	37.30	38.48	1.10
2000	56.22	35.34	35.37	1.10
2030	58.15	33.29	33.60	1.10
2100	58.14	29.95	29.52	1.10
2130	34.13	67.02	68.56	1.10
2200	28.06	67.01	65.54	1.10
2230	28.05	31.10	30.63	1.10
2300	28.05	15.75	15.75	0.00
2330	15.80	15.70	15.70	0.00
2400	14.00	15.70	15.70	0.00

ACROSS
1 Medication, operation and rest (8)
5 The host is a soldier Trotsky embraced (6)
9 Virgin Queen entered to socialise (8)
10 Complain to French joiner getting reprimand (6)
11 Disdain to cheat and seduce (8)
12 Ridin' to island in the Pacific (6)
14 A player in a play, Heather follows diet (10)
18 A greeting created a difficult situation (3-2-3-2)
22 Air can upset a plant (6)
23 Learned about colour many years ago (5,3)
24 Edward, swallowing contrived tale, is cheerful (6)
25 Wood produces a fire in the chimney (8)
26 Oriental's about to speak of a jacket (6)
27 She hides in a hollow from fan (8)

DOWN
1 The first magician to jump (6)
2 Metal detected in gigantic tart (6)
3 There's hesitation about the composer being a breadwinner (6)
4 Business takeover (10)
6 A scrutineer, formerly a prospector (8)
7 It's understood spirit's allowed (8)
8 It's put about. "Watery drinks may often be sweet" (8)
13 Believe senior churchman, briefly showing means of payment (6,4)
15 Don eats warm fowl (8)
16 Drink braces ashen trainee in ballet (4,4)
17 Specific study on an island (8)
19 Soak an explosive device that's alight to start with (6)
20 Weep uncontrollably with an American native (6)
21 Decorative feature originally from temple (6)



Winner of Puzzle No.9,870: A.W.W. Hale, Uplands, Swansea

MONDAY PRIZE CROSSWORD
No.9,878 Set by ARMONIE

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday January 14 marked Monday Crossword 9,878 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 18. Please allow 28 days for delivery of prizes.

Name...

Address...

Solution 9,870

JOTTER PAD

هكذا من الاصل